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FINANCES OF PANCHAYATI RAJ INSTITUTIONS: A SIMPLE STORY BUT A MESSY PLOT

Abhay Pethe & Mala Lalvani[ℑ]
Department of Economics
University of Mumbai

"The King died and the Queen died' is a story.
"The King died and then the Queen died of grief" is a plot.
--- E. M. Forster
Aspects of the Novel

I. Introduction

Down from the time of Rig Vedas to Charles Metcalf's characterization of villages as 'republics' to the now famous dictum of 'power to the people' by Lord Rippon (a hundred and twenty five years ago), followed by the Bengal initiative in 1885, or indeed the more recent Gram Swaraj concept of Mahatma Gandhi, Panchayat Raj has been the recurrent theme in our political discourse. In its most potent form the credit of ushering in the Panchayati Raj Institutions must go to the dynamism of the youthful Prime Minister the late Shri Rajiv Gandhi. In the modern rendition too the efforts have witnessed a long travail. Following Article 40 of the constitution, 1953 saw the first central initiative to establish local governments, this was followed by the 1963 recommendations on fiscal devolution and finally by 1986 the need to amend the constitution was recognized. Despite the faltering attempt of the 64th Constitutional Amendment Rajiv Gandhi pressed on with the 73rd and 74th Constitutional Amendments, convinced that it encapsulated the vision and injunction by our founding fathers. He was acutely conscious that the fruition of the ambitious project of Panchayati Raj would take at least a generation. Normally a successful mission completion and getting on-line requires that it follows a sequence of process conceptualization, legal notifications, actual implementation followed by monitoring of processes and outcomes followed finally by evaluation and feedback for course correction and possible re-engineering. The problem with current situation vis-à-vis PRIs is not conceptual. Through much debate and discussion there seems to have emerged a consensual clarifying response in terms of

[ℑ] First and foremost, we wish to thank for Prof. Y.K. Alagh for showing the confidence in us to undertake this study and so *directing* us! We thank Shri. B. K Sinha Additional Secretary at MoPR for initial and continuing contact and cooperation. Special thanks to Prof. D. Mishra from IRMA, who *patiently* responded to all of our requests (academic as well as logistical nature) and helped despite his own tight schedule. To Dr. Satish Bagal, currently the Financial Advisor at the MMRDA and a friend who clarified many a doubt, and Shri Bhagwat, Senior Finance Officer at RDD, GoM for providing us with information, we express our deep sense of appreciation. We appreciate Shri Pohre from DES, GoM who as usual was helpful with data. For doing quick and efficient data entry job, we record our thanks to Shri. Ajit Patil, UDE, University of Mumbai. We wish to record a special thanks to Dr. N.A. Mujumdar who not only provided us encouragement through his writings but was ever ready to discuss the subject – even while taking his constitutional walk at the Jogger's Park. The usual disclaimer applies.

organizational frame and processes that need to be followed. The peculiar federal set up that India is of course comes in the way of full and immediate implementation. After all is said and done, it boils down to effective implementation which necessarily has the pre-requisite of empowerment of PRIs through effective devolution of finances. Herein – as they say – lies the rub.

The paper is divided into nine sections – with suitable subsections – including this one. In the next section, we provide the background and the context for this piece. In the third section we look briefly at the International scenario, in the fourth section we deal with the overall Indian situation, in the fifth section we look at the Maharashtra case for which some additional data is available. In the sixth section we consider some other states based on the material available from some specific studies. In the seventh section we look at the main stumbling blocks that exist in implementing the thought out processes. In the eighth section we suggest the way forward. In the final section we conclude.

II. Prologue: The Backdrop and the Context

The current Indian parametric environment, we believe is defined by three important points of departure that are relevant to our discussion. One is globalization that engulfs the Indian economy, polity and society. Two the Indian political space is characterized by a fractured polity. Three, there is a strong macroeconomic growth story that India enjoys. Within the conjuncture thus presented the *problematique* has inclusion at its very epicenter. For, to state the obvious, development without the crucial constituent of inclusion, is hardly development at all!

Whilst the advantages and disadvantages of decentralization as a strategy are well documented (see for example Oates 1972, Tiebout 1961, Tanzi 1996 and Prud'homme 1995) such academic discussion need not detain us here as it is clearly not warranted. Whilst it is difficult to empirically establish the positive effects of decentralization and weigh them against the disadvantages of institutional capacities at the lower level, there are a multitude of individual examples of positive impact of decentralization on governance as well as human development measures. Good governance is recognized as the key to efficient and welfare enhancing key, of which decentralization is one of the constituent best practice. Indeed there is a fair consensus that decentralization whilst it is a challenging and complex process that requires dedicated participation by all its stake holders, it promises to be a mechanism for improved democratic governance and sustainable human development. In any case the process of decentralization has been institutionalized through constitutional amendment and is here to stay as is the fact of globalization and are best treated as *fait accompli*. Globalization has been accompanied by tremendous increase of prosperity and yet there continue to exist large islands of abject poverty. Even where the poverty has been dented the inequality has increased. These are clearly warning signals for sustained human development. The IT enablement of businesses characteristic of globalization have reduced the relevance of the boundaries of nation states and also the policy making power of the State. In today's global world order the mantra is to think global and act global. The complimentary synergistic relation between local and global institutions and operations is well recognized (Ministry of Panchayati Raj 2006). This is crucial for the effective adumbration of the '*glocal*' paradigm. There is no better vehicle – in India – than a meaningfully empowered, extant framework provided by PRIs.

Although India has a federal structure albeit not in the classical sense it is essentially a Union with a strong centripetal bias with the constitution ensuring an overwhelming and overriding power to the central government. The political scenario in recent times has been such that more and more ground has had to be yielded to the states. The days of single party domination are long past and coalitional politics are here to stay. The regional parties have been gaining ground for some time now. A more recent trend has been emergence of strong local leaders even within the National Parties. This is quite different from the case of Argentina where macro-stability and other issues were taken care of because, not only was the national government able to set up hard budget constraints but partly also because it had a strong party control of both legislators at the Central level as well as at the level of sub-national governments (see, Dillinger, W and S. Webb (1999). In the current context of PRIs getting effectively empowered, especially because many of the public goods have to be provided and serviced locally (below state level), the continued fractured mandate (as far party political strength is concerned) means that the situation is full of potential issues. More than ever before the 'political feasibility' in a fractured and heterogeneous domain of Indian polity will present a biting reality. **However, we believe that such a situation could be turned on its head to bring more progress – *rather than less* – on the front of empowerment of PRIs.** This belief is supported by a couple of rather hazy propositions about the link between political structure and decentralization. One, that the ceterus paribus, ***Central government is far more pro-decentralization (including financial devolution) that the State level government.*** The reason for this is simply the threat perception resulting out of the decentralization by the governments at the two levels. Since the disutility arising out of sharing resources (economic and political) with others is independent (it is a matter of indifference) whether the sharing takes place with one or more sub-national governments. Whereas for the State government it matters how much it actually devolves lower. Second the 'distance' and 'level' considerations also lead us to believe that decentralization threat is perceived to a much greater extent and immediacy at the State as compared to the Central level. Two, ***regional parties would – ceterus paribus – be more inclined to decentralization. More specifically, political parties which derive their strength from regional agenda (which are necessarily people-touching and participatory) and generally parties that are cadre based are more positive about decentralization.*** This is because the party structure continues to be prominent whether the party is in office or out of it, thus official/ elected positions do not grant sufficient powers to provide a threat to higher level functionaries (in office as well as the party). Finally, coalitional government at the central level – especially with one national and others essentially with regional identification – will augur well for an effective big push towards effective decentralization. These then, are the reasons for our seemingly sanguine hope and assertion. Let us turn to the crucial sub-theme of inclusion.

II.1 Inclusion as a Soul of our Strategy

It is important to understand that our insistence of inclusion as an embedded part of the strategy is not dictated by ethico-moral considerations (although these are not bad reasons either). It is a pragmatic position born out of considerations of feasibility and sustainability of the much needed growth phenomenon, within the Indian socio-political milieu. The great Indian growth story of the recent past is too well known to require too much elaboration. In recent times, the upswing in the secular rate of growth of the Indian economy to around 7+%, wherein it has managed to significantly break away from the 'Hindu rate' (3.5%) has had positive impact on the way in which India is perceived the world over. This feat is especially noteworthy because it has been achieved by a country whose democracy has been often characterized as a *functioning anarchy*. The current growth experience and its impact on the macro-level fiscal and income variables – in terms of the positive growth dividend – must finally put to rest all the anti-growth rhetoric. ***It is amply clear (in the context of growth scenario) that all the good things – in social sphere, in terms of inclusion – can now be realistically afforded by the Indian policy maker, perhaps for the first time!*** It is indeed necessary that we do something here especially given that the 'poor' states have remained 'poor' through this growth episode, with the inescapable conclusion that there is certainly an exclusionary sub-plot to this growth story.

This has two implications, one, for purposes of satisfying the very important tenet of inclusion, greater weight needs to be to be given to social sectors in a targeted and performance based manner. Two, it is crucial that the growth (even when somewhat exclusionary in character) has to be sustained, with the further implication that the design of **any policy strategy must have incentive compatibility meaningfully as its cornerstone.** Having taken care that the growth rate regime is not jeopardized, the essential step will be to concentrate on the 'inclusive' aspect of growth. Growth is after all only an instrument that strategically will ensure that development takes place. Inclusive effects are intrinsic to the process of development – properly understood – and surely require focused attention. We believe that not only does this make good economic sense but happily makes good political sense too. We believe that in strategizing in this regard, the framework of PRIs will have to play a crucial and integral role.

Inclusion then is at the very heart of the matter. Much ingenuity will have to exercised and much will have to be drawn from the Indian experience is working out a strategy that will dovetail it with the forces at play (policy nduced as well as autonomous) within the Indian socio-political economic milieu. Inclusiveness may be said to have two dimensions, one in terms of sectors of economy and two in terms of groups/ persons who have been by passed by the growth process (Mujumdar, 2007). Apart from the PRIs that will have to be pressed into action, the other significant change has to be in terms of investment climate in order to up the magnitude seriously. After all, inclusive growth is a complicated phenomenon involving coordinated role of actors such as PRIs, State and Central Government, and NGOs (SHGs) amongst others on one hand and the vision of a new architecture of rural credit on the other. Supply led and (non-clinical) extension based innovation in credit delivery has to be learnt afresh by the banking community at large. The mistakes in the interest rate policy that led banks to hold SLR securities thereby crowding out priority sector lending (including agriculture), leading to disenfranchisement of rural borrowers, under the wrong characterization of it leading to NPAs, must not be repeated. In the Indian context a macro view of credit risk needs to be developed that so that the dual role of growth enhancement and risk mitigation are fulfilled in the case of agriculture and allied activities (see again, Mujumdar 2007). Changing risk profile as well as risk perception of the bankers must be an explicit and sharply defined policy objective of credit policy, with the capability to translate potential demand into viable risk projects. We shall have an occasion to return to this theme later in this piece. What we are recommending – to be sure – is not a return to the old ways, but rather a move to a more enlightened – Mark II if you like – market theology. **In the newer context this calls for a new/ redefined role of the State which simultaneously lets go and work more intensively on narrowly defined objectives.** There are two important strands of argument to be made in this context, and at length, in the context of decentralization. One, it will be abundantly clear that one of the things we must do is to consolidate schemes that have grown and continue to grow exponentially with the absorption showing perennial decline (the last is also true of many schemes such as RIDF but also of the brilliantly put together PMGSY with the structure of oversight in place and technical inputs, including appropriate technology worked upon) . In doing so, priorities will need to be set so that the problem is tractable and manageable. We believe that the first such effort has to be concentrated on three areas, Water, Education and Roads. The road connectivity leads to remarkable impact on the lives of the rural folk, as has been amply documented. As Narayan et al have pointed out (See, India Infrastructure Report 2007), the prevailing conditions make it difficult for people to get their goods to the market or for people to get to their place of work or indeed to access health in emergency and generally to access public services. Education as a constituent of development needs no argument, but its delivery through various schemes (notably SSA) as now designed is unsatisfactory. As far as water is concerned it is the life line of civilizations, it is said that the next world war will be fought about water. It is important to combine all the schemes (funds there from) that look at the consumption (drinking/conservation/wells) as well as the investment (minor irrigation schemes/harvesting) aspects as play them through the instrumentality of PRIs. The water programs are not functioning properly (especially the ones with respect to irrigation). Indeed the technical committee on water shed development has opined that given the estimate of about 150000 crores and the actual devolution is woefully short, there is a good case for NREGS funds to be merged. It has been noted that such programs alone will be the saviors of agriculture in rain fed regions. Of course, in case of drought prone areas there would have to be a different approach. **There is evidence to show that the political empowerment of women have also thrown up such schemes as perceived priorities so that acceptability will not be an issue** (for all assertions made above see, India Infrastructure Reports especially 2007 dealing with Rural Infrastructure, also see Annual Report of RDD, GoI 2007, Shubham Chaudhary, 2007 and N.A. Mujumdar 2007)). The externality of such reorganization will be that that the utilization will improve and through impetus to the rural hubs initiative, livelihoods will be created, which alone is the surest way of empowerment. Here one needs to emphasize that there are two elements viz., Health and Power that we have left out that are generally recognized as terribly important. The reason is that whilst some elements (extension) can be incorporated, prioritization requires that things be kept at manageable levels and also that there are indications (from experience elsewhere) that given the skill demands of both these sectors and the prevailing situation these are not sector that lend themselves to easy and successful decentralization. The second strand of the argument here is that consolidation and transferring the funds to PRIs (along with functionaries) will lead to possibilities of financial market access. This can and should be encouraged using various possibilities and experiences (see Pethe and Lalvani, 2006). But we will leave this for the moment and return to this theme later in the piece.

Finally, in this context, two important points to kept in mind are that: one, that at the current stage in India, the importance of ***'Dhan Dhanya Vipula Bhavatu'*** should not be underestimated and two, that the best way to ensure inclusion is through provision of livelihoods. We now turn to the International experience and derive some lessons.

III. Prologue: The International Scenario[ℜ]

A lot of documentation is available on international experience on decentralization, federalism and local governments. In this section we take a look at some of the experiences of the developing countries, the transition economies as well as the more developed ones. Clearly in terms of drawing lessons from these experiences, the order of listing of the country categories are in decreasing order of importance and relevance. In the main we depend on the excellent work by Work, R (2002), Anwar Shah (2005) and Bardhan and Mookherjee (2007). The following sections are based on the case studies as reported in the literature cited above, which at once represents large number as well as representative sample of countries. One of the chief tractable finding is that fiscal decentralization always seems to follow (rather slowly) after political decentralization in a uniform pattern and also that it is much less in magnitude (as judged by various available indices of decentralization). This is perhaps along the expected lines. Further for the lower income group of countries, this gap is strikingly large and uniformly reduces as one traverses upward through the higher income categories. Also, it is clear that western developed countries use decentralized framework (local level governments) as a cost effective mechanism whereas the others use it either as support to consolidate central power or as response to or as antidote to inefficiencies and ineffective government delivery of local public goods. We treat the experiences in the reverse order i.e., in increasing relevance.

III.1 Developed Countries

This section is heavily base on Robert Work (2002) and Tony Travers (2007). Importance of decentralization as a intrinsic part of good governance mechanism for delivering welfare enhancing activities especially with local public goods character has been universally recognized. Unlike UK, the regional and local governments within the other developed countries operate within a written constitution. Necessarily therefore the reform there (unlike in UK where it is unstructured and hence more feasible) is halting and conservative. The experience in terms of tax assignments amongst other things have been quite diverse and yet compatible with reasonable success in terms of performance. In the Nordic countries local income taxes form a sound and buoyant economic base. In the USA, individual states can take a pick from an array of taxes. Unlike the UK (with one prominent local tax), the French use a number of smaller taxes. It has been found that single tax causes more attention (for the same tax effort) and hence is more than mildly troublesome. Italy is perhaps the best example of the most extensive form of fiscal decentralization. Full equalization is the accepted norm in Australia and European countries where national identity of citizens imply that similar level of services need to be provided to all their citizens. Differential level of local public goods and services provision is acceptable in the USA hence precluding the need for equalization. Grants are

[ℜ] The lessons here have been drawn from many countries considered by the source material referred to in the text. These include Bolivia, Pakistan, UK, Denmark, Uganda, South Africa, Chile, Brazil, China, France, USA, Italy, Indonesia and some countries from the erstwhile Soviet Union amongst others.

used in different ways but mostly they are specific purpose and/ or earmarked grants. Thus, a wide variety of arrangements are to be seen at work each having emerged through respective historical experiences and specific needs. *The important lesson to be derived is that the decentralization structure is varied and dependant on the historical-cultural milieu and does not lend to easy transplantation.* The range of measure of the size of the local governments is seen to vary from 7.5% to 25% of the economy. Expectedly, the smaller the size the lesser will be the political concerns that will be raised. The revenues raised by the local governments are expected to fund roughly around half of the expenditures. Targeted or specific grants are seen where the welfare and equity concerns predominate. There is a perceived danger that this will lead to micro-management by higher levels or the equity aspects may somewhat suffer. In the Indian case (since it is still a low income developing country) we believe that this is a 'danger' we will need to face head on. Of course, this will necessarily (and advisedly) be in a non-uniform fashion, implying a redefinition /change of role of the State. Given the capacity levels some amount of hand holding and micromanagement will be inevitable with the hope that equity will not suffer. This hope will have to be pinned on a strong civil society and (surprisingly) fractured polity not to mention a positive bureaucracy. This is required especially because inter-state inequality has been sustained over tome and poorer states have remained so even through the growth phenomenon and the fact that Indian integrity requires that every citizen have access to similar level of public service. Thus, whereas there has been a toying with the idea of differential service levels as a beneficial concept in some of the western developed countries it is clearly not relevant to India at this stage of development and well-being. Finally, whereas, there seems to be divided opinion on whether the reform ought to be incremental or 'big-bang', there seems to be consensus on the crucial need for adequate finances at the local level.

III.2 Developing and Transitory Economies (DTEs)

The movement here is inspired as a response to the collapse (actual or perceptual) or dramatic change in the order of centrist economies (either of the dictatorial regimes or the ones defined by the collective control). The rationalization is to be found in the famous decentralization theorem (see Oates 1972) that each public service is to be provided by the jurisdiction having control over a minimal geographical area that would internalize benefits and costs of such provision. This provides convenient manageable partitioning of the domain as well as theoretical foundation. There are also the corollaries, namely, the principle of subsidiarity and expenditure assignment must precede tax assignment. The corollaries are not followed in most cases except that the second one is by vacuous logic.

Looking at the paths that some of the financial variables/ratios display over two decades for the countries in this category, there are some interesting convergence patterns that are discernable. Using the decentralization measures developed by World Bank (see Anwar Shah, 2005), it is clear that there is some amount of expenditure autonomy as well as tax autonomy for both developing and transitory economies. As predicated by the second corollary above, the tax autonomy is less than the expenditure autonomy. In case of transitory economies the measures for both these are higher than the corresponding values for the developing countries. As far as the expenditure as a percent of GDP is concerned, for the developing countries it has risen from 3 to 6% whereas for transitory economies the figures come down from around 17 to 10%. For the expenditure as a percent of total government expenditure, for the developing countries it has risen from 13 to 22% whereas for transitory economies the figures come down from around 45 to 24%. In case of the expenditure on education as a percent of expenditure at sub-national level, for the developing countries it has gone up from 12 to 45% whereas the comparable figures for transitory economies the figures come down marginally from around 31 to 29%. For health, the expenditure as a percent of expenditure at sub-national level, for the developing countries has gone up from 7 to 12% whereas for transitory economies the figures come down from around 22 to 17%. Whilst these are merely observed statistical trends, it may be tempting to infer some kind of convergence points for each of the categories/ratios.

Some of the lessons to be drawn from these cases are interesting. Civil service reforms are critical for success. In developing countries, there appears to be a tendency to develop transfer dependency. Sub-national governments must be made to face financial consequences for their decisions (however, how does one penalize a sub-national government without harming the interests of the citizens is a design challenge!). Tax decentralization is pre-requisite to credit market access. Most importantly, that traditional administrative capacity matters but should not be an excuse for not decentralizing. For, institutional environment of developing countries – even more than the industrialized ones – calls for a greater degree of decentralization.

III.3 Developing Countries

This section is based on the comprehensive recent work by Bardhan and Mookherjee (2007). In their expectedly brilliant work they focus on the lower strata of governments thereby distinguishing their work from that of Rodden, Eskeland and Litvack (2003) which focuses on the provincial or state level governments. The phenomenon of decentralization or reduction in centralist control (in the earlier communist regimes) occurred simultaneously in Latin America, Africa, Asia and Eastern Europe. The earliest changes were to be seen in the 70s, the momentum picked up in the 80s and accelerated in the 90s. Lack of accountability in economic terms corresponds to outcomes that reflect implicit policy weights that deviate substantially from the (locally perceived) welfare weights. One of the important things is that the reservation provision in decentralization design has impacted this in a positive manner. There are of course some preconditions that have to be met for success otherwise decentralization can lead to outcomes that are inferior to even the outcomes of the corrupt centralized regimes.

The cases considered discussed here span three continents and may be conveniently classified into three categories. The first are the cases where movement has been from centralized, dictatorial regimes to democracy, reflecting a paradigm shift aided by support and advised by Fund-Bank experts. The second category is of countries where the democracy at the national level was entrenched and it was sought to be extended at local levels. The third type comprises of countries that are characterized by the fact that they have off and on, hummed and hawed with the decentralization experiment.

In the first category one finds decentralization essentially as a response to crises (major and minor). One also finds the implementation that is gradual as well as of the big bang variety. Reduction of interregional inequalities is the positive impact to be seen and the practice of formula based devolution is the order of the day. The level of – at least the perception – public participation in the economic processes seems to have improved and the impact has been positive in terms of reduction of corruption. In the second category of countries, the impetus was to be found in the apparent lack of effectiveness of delivery by the government. There appears to be a counter balancing act amongst the troika of public, the political parties and the civil society. The process has been strengthened by the increase in devolution to the tune of 10 to 20%. Where there has been limited devolution and where the entrenched bureaucracy has not been fully on board, the process has been slow and drawn out. The exception has been where the ruling party directly proximate to the decentralized level has been a cadre based one and so has been interested in passing on the resources to the local governments to strengthen mass based support. In a variant of this theme, the case where guerillas (who were outsiders to the legit political actors) have been entrusted with the power, there by institutionalizing their roles within the purview of the overall main-stream politics and yet at once providing stability at the central level giving relief from the divisive/ security threats. One of the specific lessons here has been that it is difficult to bring about decentralization in the health sector. In the third category are countries that have had military dictatorships, central party-based command and control as well as a big ticket event (renunciation of apartheid regime). Here, you find a variety of reasons for decentralization effort. One is the strategy of divide and rule; fragment the polity at the lower level to secure relative peace at the top. The economic devolution has been of a lower and heterogeneous (temporally) order. The bureaucracy has been put under the elected representatives. The strategy has not been successful in delivering important public goods like health and education. The other reason is prompted by the change in paradigm of economic management, while keeping the power and structure in tact, devolving economically and administratively but not so much politically. This has been economically successful and also politically in that despite the party strangle-hold the public are more attuned to speaking up leading to greater administrative transparency. This however, represents a unique variant also in that here there is an upward flow rather than downward devolution of funds. In yet another case in this category, that of apartheid regime change, there is now more equitable resource distribution which is less arbitrary. There is yet an imbalance between the availability and need for funds but that is generic to the country at all levels.

Thus, the dominant motive for move towards decentralization has been the challenge to incumbent at the national level (perceived or real) from competing political/ regional forces. The lessons to be learnt from these experiences seem to be that big bang strategy with public participation performs better more often than not. Constellation and distribution of political power plays an important role. Transfer dependencies imply hard rather than soft budget constraints, which may be fine except that too large a gap between Economic and administrative and devolution are more important for better outcomes. However, given that generally (except where the party is very dominant and cadre based) financial devolution seems to follow political one this may not be greatly relevant.

III.4 Lessons for India

Whilst the different experiences emanating from a host of experiences the world over while of general interest, they naturally differ in importance from the Indian standpoint. The array of arrangements of a myriad of different aspects leading to success stories as well as unsuccessful ones reminds one of the celebrated ‘Folk Theorem’ or generally the critique of economic theorizing, where presumably *anything goes*. However this feature is indeed at once both a strength and weakness. The responsibility of eliciting useful lessons and *reading* our situation and hence working through the correspondence principle to derive specific 'learnings' falls squarely on us. The *raison de etre,* decentralization in India is deeply rooted in our history and culture and reflected in the political pronouncements throughout our history. Let us list out a few of the pointers:

- It is obvious that one of things that must be done is that the size of the local government has to be increased uniformly. The local governments will only then come into their own and into reckoning. The size at the lowest tier in particular needs to be increased so that public participation is assured.
- At the current stage, some scope for hand holding and even micro-management may be called for. This could be achieved through the transfers – with gate keeping – by a constitutional authority such as the Central Finance Commission to minimize politicization.
- Big Bang approach should be pressed for, otherwise there will be time for the entrenched order to enter caveats and qualify the substantive proposals to render them ineffective. The current constellation of distribution of forces within the political space is such that, this seems possible as never before.
- Civil services reform is hugely important. It is essential that the some of the state/ scheme officials should be working under panchayats. In this context, it has been noted that the field office is often times treated as punishment transfer. The distance from the seat of power is seen as a hindrance to possible promotions. It is essential that it be made compulsory for all to work at field postings. However, not being votaries of 'compulsion' approach, we would rather like this to be achieved through incentive mechanism. Altogether there is the general (nebulous and hence difficult) task of enthusing the civil service agents with positive energy as far as agenda of the PRIs is concerned.
- Transfer dependencies have to be reduced as far as possible because they induce lack of accountability as well as lethargy. The move towards borrowing – which involves – change in the bank behavior at large is also important. This as indicated earlier will be a theme we will return to later.
- Traditional administrative capacity matters but should not be used as an excuse to not decentralize. Indeed for all the problems and challenges, countries like India require decentralization far more than even the industrialized economies.

IV. Core: The Indian Situation

Considerable work has been done in the different aspects of Panchayati Raj institutions in India. The work by Oommen (2005) and the work by Amba Agarwal, Goel and Rajneesh and of course those by Govinda Rao, Indira Rajaram as well as State of the Panchayati Raj (MoPR, 2006) are particularly noteworthy. The voluminous literature here is huge – even by the standards of the *argumentative* Indians – and discusses and debates every aspect of the functioning of PRIs. The upshot – as noted earlier – is that clearly the issues are not epistemological or conceptual by a long shot. They are more in the nature of '*will*' as well as translating the concepts into real processes and actual implementation. It is prudent to enter a caveat here that '*evaluation*' as is attempted here is necessarily circumscribed by the availability of uniform reliable and consistent data at the all India level, and as such is less than what we would have ideally liked especially given that this section is heavily data intensive.

IV.1 Fiscal Performance of PRIs: An Inter-State Comparison

In this section of the study we attempt an inter-state comparison of the fiscal performance of PRIs. Data on rural local bodies in the various states are available from the Central Finance Commissions (CFCs) both 11th and 12th and also from the State Finance Commissions. (SFCs). The SFC data are somewhat more detailed but since not all SFCs are available on public domain and there is the danger of differing methodologies being used for compiling of the data, it would be inappropriate to use them for inter-state comparison purposes as is being attempted here. For our purpose of state comparison the CFC data (although relatively aggregate) would be most suitable. However, even this data set needs to be used cautiously. Both Govinda Rao (2007) and Oommen (2005) have drawn attention to several examples to explain why they find the data set to be suspect. Assam has no capital expenditures in all five years and neither does it have any data on grants; Bihar has no numbers for own taxes, Karnataka receives no grants. The breakup of the data into revenue and capital expenditures seems even more problematic. Capital expenditures appear to be more than five times that of revenue expenditures for U.P. However, all data sets have their limitations – to that extent this data set is no exception. But given that the central finance Commissions (both 11th and 12th) have actually provided separate funds for maintenance of data base one would have hoped to see a more authentic looking data set.

Having sounded alarm bells regarding the data set, we proceed to use the existing data sets provided by the 11th and 12th FCs to make some inter-state comparisons. The paucity of data for some variables for some of the states necessitated that we curtail our analysis to fifteen major states. These include: Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya P, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, U.P. W. Bengal. The changing pattern of some key variables in per capita terms over the period 1993-94 to 2002-03 were used as indicators to signal the fiscal performance of these states.

Table 1: Key Indicators (15 states)
(in Per Capita Terms)

(Rs.)

	Own Tax Revenue	Own Revenue	Total Revenue	Total Exp	GSDPP (current)	GSDPPR (93/94 prices)	Grants
93-94	3.132	9.21	160.91	158.51	4466.66	4573.31	N.A.
94-95	3.750	10.87	178.42	167.69	5190.48	4797.91	N.A.
95-96	4.188	11.80	203.46	202.32	5550.55	4681.05	N.A.
96-97	4.799	12.62	247.66	238.88	6390.17	4986.09	N.A.
97-98	5.252	13.87	302.75	295.42	6724.35	4846.38	N.A.
Average (93/94 to 97/98)	**4.224**	**11.673**	**218.641**	**212.565**	**5664.442**	**4776.948**	
1998-99	15.28	28.11	306.70	318.79	7459.26	4975.00	166.03
1999-00	15.86	31.62	382.41	373.07	7674.06	4881.51	212.70
2000-01	17.66	33.06	403.51	404.27	8438.17	4830.20	220.82
2001-02	18.87	32.90	380.37	394.55	8627.50	5035.47	211.23
2002-03	20.60	37.07	405.27	399.70	8617.37	4665.48	223.07
Average (98/99 to 02/03)	**17.65**	**32.55**	**375.65**	**378.08**	**8163.27**	**4877.53**	**206.77**

Note:*GSDPP*: GSDP from Primary Sector; *GSDPPR*: GSDP from Primary Sector at constant 93/94 prices
States= Andhra P, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya P, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, U.P. W. Bengal

The variables tabulated above have been divided into two phases. The first phase spans the period 1993/94 to 1997/98 and the second 1998/99 to 2002/03. The only reason for this bifurcation is that the first phase data set was provided by the 11th Finance commission and the second by the 12th FC. Essentially this implies that the FC transfers made by the 11th FC was based on the data available in the what we have called the first phase and the 12th FC transfers is based on the data available in the second phase.

A comparison of the average per capita own tax revenues shows that own revenues as a whole have tripled in the second phase and own tax revenues have quadrupled. Clearly there has been progress on this front, however the small base to begin with has to be kept in mind. A quick calculation shows that a decade after the path breaking Constitutional Amendment Acts own revenues (per capita) still form a mere 9% of the total expenditures (per capita). Average increase in total revenues and total expenditures (in per capita terms) has been 1.7 times. The income measure that we use for the purposes of our study is Gross Domestic Product from Primary Sector. **Per capita income in nominal terms (GSDPP) shows a growth rate of 44% while in real terms (GSDPR) it registers a growth rate of a mere 2%.** Thus the key indicators suggest that while there has been **some progress in terms of increase in own sources of revenue it has been very slow and PRIs continue to depend heavily on the upper tiers of government for their expenditures.**

This conclusion is further tested by examining some key ratios that we compute for our fifteen major states.

1. Two versions of Revenue Decentralisation Ratio (RD Ratio 1 and 2).
(a) RD Ratio 1: PRI Own Revenue/ State Own Revenue
(b) RD Ratio 2: PRI Own Revenue/ State Own Revenue(as suggested by Oommen, 2005)
2. FA Ratio: Financial Autonomy Ratio: PRI Own Revenue/ Total Expenditure of PRI
3. DR: Dependency Ratio: (Total Expenditure-Own Revenue)/Total Expenditure
4. DDR: Change in DR ($DR_t - DR_{t-1}$)
5. Two versions of Government Size measure
(a) GS1: PRI Total Revenue/GSDPP
(b) GS2: PRI Total Expenditure/GSDPP

Strictly speaking the first four indicators are performance indicators as GS1 and GS2 include transfers from higher levels of government. This exercise may be seen as a fiscal part of the agenda of constructing a devolution index that is being currently undertaken at the behest of MoPR (See, NCAER, 2007).

Table 2: Key Ratios (Average for 15 states)

(%)

	RD Ratio 1	RD Ratio 2	FA Ratio	DR	DDR	GS 1	GS 2
1993-94	0.408	0.405	10.83	89.170		3.955	3.885
1994-95	0.374	0.372	12.46	87.540	-1.630	3.624	3.415
1995-96	0.375	0.373	11.70	88.298	0.758	3.897	3.864
1996-97	0.366	0.364	12.16	87.837	-0.462	4.118	3.991

1997-98	0.353	0.351	10.55	89.453	1.616	5.177	5.030
Average (93/94 to 97/98)	**0.375**	**0.373**	**11.54**	**88.460**	**0.071**	**4.154**	**4.037**
1998-99	0.977	0.962	25.72	74.282	-	3.946	4.175
1999-00	0.982	0.964	22.70	77.305	3.023	4.910	4.829
2000-01	0.909	0.895	22.74	77.262	-0.043	4.930	4.954
2001-02	0.868	0.855	20.87	79.126	1.864	4.525	4.798
2002-03	0.851	0.838	21.06	78.941	-0.185	4.690	4.677
Average (98/99 to 02/03)	**0.917**	**0.903**	**25.72**	**77.383**	**1.165**	**4.600**	**4.687**

Notes:
RDR 1: PRI own Revenue/State Own Revenue, RDR2: PRI own Revenue/(State Own Revenue+PRI Own Revenue)
GS1: PRI Total Revenue/GSDPP; GS2: PRI Total Expenditure/GSDPP
States are same as in Table 1

Table 2 above further vindicates our position that decentralization has progressed but only to a very limited extent. Both Revenue Decentralisation ratios (RD1 and RD2) show that the average PRI own revenues are below 1% of the states' own revenue for fifteen major states. The Financial Autonomy ratio (FA Ratio) i.e. the extent to which expenditures are being funded out of own revenues shows progress during the two phases from 11% to 25%. This ratio is effectively the flip side of the Dependency ratio (DR) which shows that PRIs depend on upper tiers to the extent of 77%. This is down by 10 percentage points from 88% in the first phase. Thus while fiscal autonomy of PRIs has improved, they are still largely dependent on the higher tiers for their revenue stream. The two measures of government size (GS1 and GS2) show that significance of PRIs in the state is under 5% and this size has in fact shown a mere 0.5% increase from the first phase. It is to be noted that the size includes transfers and hence lends even more weight to our argument above.

Thus the broad story that emerges is clear – Despite the much spoken about decentralization *de facto* fiscal empowerment of rural local bodies has moved at snails' pace. Since it is always the case that the macro picture hides both star performers and laggards, it is imperative that to get the complete picture we progress to look at the state-wise performance. For each of these fifteen states we have obtained the per capita key variables for the ten years under consideration (Appendix A) and also computed the key ratios and ranked the states based on these key ratios (Appendix B). From the Tables in Appendix A we find that:

- PRI own revenues in per capita terms for the fifteen states has increased from Rs. 9 to Rs. 37 i.e. an increase of four times between 1992-93 and 2002-03. In the first phase there were four states above average performance viz. Andhra, Goa, Haryana and Punjab. In the second phase Andhra seems to have slipped up, Goa and Haryana have maintained their above average performance and others like M.P. Maharashtra and Punjab have moved up the ladder to above average.
- Grants (per capita) have increased from Rs. 166 in 1998-99 to Rs. 223 in 2002-03. We do not have the data on grants for the first phase hence we compared the two end points 1998-99 and 2002-03. We find that the states which have received above average grants (per capita) are Andhra, Gujarat, Kerala, Maharashtra and Rajasthan. These states have consistently received grants that are higher than average in all the five years. We will have more to comment on this later in the study where we look at the shares that FC grants have awarded to the various states and whether these seem to reflect the performance of the individual states.

- Total Revenues of PRIs (per capita) have increased 2.5 times from Rs. 160 in 93-94 to Rs. 405 in 2002-03. Andhra, Gujarat, Karnataka and Rajasthan that registered per capita total revenues above average in the first phase. These states have maintained this position in the second phase. The only additional state which had above average revenues in the second phase is Maharashtra.
- Total Expenditure (per capita) have increased from Rs.158 to Rs.399 during the same ten year period. Andhra, Gujarat, Karnataka and Rajasthan are the four states with above average expenditures in the first phase. In the second phase These four states have continued to maintain above average expenditures and there are two other states of Maharashtra and Kerala which have recorded above average per capita expenditures.

Juxtaposing the total expenditures with own revenues of PRIs we find that in the first phase two of the states Karnataka and Rajasthan who registered above average per capita expenditures had in fact a poor record on the per capita own revenue front. In the second phase the own revenues of Maharashtra seem to have increased (almost) dramatically from a mere Rs. 3.89 to Rs.61.91 (This sharp increase may be indicative of a change in definition by the two different FCs but we have no alternative but merely to sound a word of caution here).

- Finally we looked at per capita incomes from primary sector and found that in the first phase there were six states with above average levels viz., Goa, Gujarat, Haryana, Karnataka, Maharashtra and Punjab. In the second phase two of these states Karnataka and Gujarat have not kept pace and have slipped to below average levels.
- When we examined the GSDP from primary sector in real terms (GSDPPR) we found that Karnataka and Maharashtra lost their status of having above average per capita incomes in the first phase although they did register above average GSDPP in nominal terms. In the second phase too Maharashtra although above average in nominal income was considered, is to be in the below average group.

Having obtained some idea about the relative performance of fifteen major states and noting the heterogeneity in the various ratios (a fact that we need to exploit as will become clear later) we carried out a ranking of the states based on the five different key ratios that we defined earlier. Relative ranks of these states for each year and their average ranks have been tabulated in Appendix B. To obtain a sharper picture we juxtapose the average ratios and ranks for both these phases, in the tables below

(1) PRI own Revenue/State Own Revenue (RD1):

Table 3

	Average Ratios		**Ranks Of Average Ratio**		**Change in Rank**
	93-94 to 97-98	**98-99 to 02-03**	**93-94 to 97-98**	**98-99 to 02-03**	
Andhra Pradesh	1.06	1.13	1	5	-4
Assam	0.09	0.39	14	14	0
Goa	0.40	0.57	5	8	-3
Gujarat	0.42	0.63	4	7	-3
Haryana	0.79	1.18	3	4	-1

Karnataka	0.04	0.56	15	9	6
Kerala	0.14	3.31	12	1	11
Madhya Pradesh	0.30	1.97	7	2	5
Maharashtra	0.10	1.42	13	3	10
Orissa	0.19	0.31	11	15	-4
Punjab	0.94	1.12	2	6	-4
Rajasthan	0.39	0.54	6	10	-4
Tamil Nadu	0.27	0.44	8	13	-5
Uttar Pradesh	0.27	0.47	9	12	-3
West Bengal	0.21	0.48	10	11	-1

(2) PRI own Revenue/State Own Revenue + PRI Own Revenue (RD2)

Table 4

	Average Ratios		Ranks Of Average Ratio		Change in Rank
	93-94 to 97-98	98-99 to 02-03	93-94 to 97-98	98-99 to 02-03	
Andhra Pradesh	1.05	1.12	1	5	-4
Assam	0.09	0.39	14	14	0
Goa	0.40	0.57	5	8	-3
Gujarat	0.42	0.63	4	7	-3
Haryana	0.79	1.16	3	4	-1
Karnataka	0.04	0.56	15	9	6
Kerala	0.14	3.20	12	1	11
Madhya Pradesh	0.30	1.93	7	2	5
Maharashtra	0.10	1.40	13	3	10
Orissa	0.19	0.31	11	15	-4
Punjab	0.93	1.10	2	6	-4
Rajasthan	0.39	0.54	6	10	-4
Tamil Nadu	0.27	0.44	8	13	-5
Uttar Pradesh	0.27	0.47	9	12	-3
West Bengal	0.21	0.48	10	11	-1

The two ratios of Revenue Decentralization (RD1 and RD2) make no difference to the relative rankings of the states. Andhra was seen to be the top ranker in phase I but slipped to 5th rank in Phase II whereas Kerala which was as far behind as 12th rank in phase I occupies the top slot in phase II.

(3) Dependency Ratio (DR): (Total Expenditure – Own Revenue)/Total Expenditure

Table 5

	Average Ratios		Ranks Of Average Ratio		Change in Rank
	93-94 to 97-98	98-99 to 02-03	93-94 to 97-98	98-99 to 02-03	
Andhra Pradesh	94.06	96.45	6	12	-6

Assam	91.70	0.67	5	1	4
Goa	40.93	47.97	1	3	-2
Gujarat	97.93	97.65	13	13	0
Haryana	64.42	71.78	2	5	-3
Karnataka	99.85	98.56	15	15	0
Kerala	97.25	87.05	11	6	5
Madhya Pradesh	94.49	71.25	8	4	4
Maharashtra	96.50	91.29	9	10	-1
Orissa	98.48	94.66	14	11	3
Punjab	71.09	40.12	3	2	1
Rajasthan	97.72	97.70	12	14	-2
Tamil Nadu	91.17	88.01	4	7	-3
Uttar Pradesh	94.28	89.08	7	9	-2
West Bengal	97.01	88.51	10	8	2

The Dependency Ratio (DR) shows the extent of reliance on outside sources of revenues. In this case the top ranker is the state with the lowest DR. Goa was the top ranker in the first phase but Assam took over in phase two. Karnataka has been the worst performer in both phases. Between the two phases the states which have shown deterioration in their relative ranks are: Andhra, Goa, Haryana, Maharashtra, Rajasthan, Tamil Nadu and U.P. The states which have improved their ranks are Assam, Mahya Pradesh, Kerala, Orissa, Punjab and West Bengal. Haryana and Karnataka have maintained status quo at nearly the bottom of the ladder. As wirh interpreting any ratio a caveat needs to be entered, less dependence may be a good thing but it could also mean that the state is not allowing enough to be done by its PRIs, thus we need to read these along with other ranks.

(4) Change in Dependency Ratio (DDR): DR- DR_{t-1}

Table 6

	Average Ratios		**Ranks Of Average Ratio**		**Change in Rank**
	93-94 to 97-98	**98-99 to 02-03**	**93-94 to 97-98**	**98-99 to 02-03**	
Andhra Pradesh	0.05	0.15	5	8	-3
Assam	0.12	0.29	6	10	-4
Goa	-1.28	10.75	2	15	-13
Gujarat	0.15	-0.02	7	5	2
Haryana	1.11	6.13	15	14	1
Karnataka	0.00	0.05	4	7	-3
Kerala	0.44	-0.81	11	2	9
Madhya Pradesh	0.89	-2.55	14	1	13
Maharashtra	0.54	-0.52	13	3	10
Orissa	0.22	0.60	10	12	-2
Punjab	-2.04	2.75	1	13	-12
Rajasthan	0.20	0.05	8	6	2
Tamil Nadu	0.52	0.54	12	11	1

Uttar Pradesh	0.21	0.24	9	9	0
West Bengal	-0.06	-0.19	3	4	-1

This (DDR) is meant to capture the 'return of the prodigal' aspect and introduces a dynamic element i.e., it is intended to capture the improvement in performance on the part of the states as we *do* believe that an effort to improve must be rewarded. Punjab was the top ranker on this count in the first phase and Madhya Pradesh in the second phase.

(5) Govt Size (GS1): Total Revenue of PRI/Gross State Domestic Product from Primary Sector

Table 7

	Average Ratios		Ranks Of Average Ratio		Change in Rank
	93-94 to 97-98	98-99 to 02-03	93-94 to 97-98	98-99 to 02-03	
Andhra Pradesh	6.86	8.26	4	3	1
Assam	0.07	0.05	15	15	0
Goa	1.25	1.70	12	9	3
Gujarat	9.66	16.54	2	1	1
Haryana	0.20	1.60	14	10	4
Karnataka	15.15	15.51	1	2	-1
Kerala	2.97	6.15	7	6	1
Madhya Pradesh	5.59	2.26	5	8	-3
Maharashtra	2.19	8.20	9	4	5
Orissa	4.45	1.06	6	11	-5
Punjab	0.92	0.51	13	14	-1
Rajasthan	6.96	6.77	3	5	-2
Tamil Nadu	2.35	2.85	8	7	1
Uttar Pradesh	1.71	0.89	11	12	-1
West Bengal	2.00	0.78	10	13	-3

(2) Govt Size (GS2): Total Expenditure of PRI/Gross State Domestic Product from Primary Sector

Table 8

	Average Ratios		Ranks Of Average Ratio		Change in Rank
	93-94 to 97-98	98-99 to 02-03	93-94 to 97-98	98-99 to 02-03	
Andhra Pradesh	6.88	9.50	4	4	0
Assam	0.46	0.05	15	15	0
Goa	0.79	1.70	12	9	3
Gujarat	9.83	14.77	2	1	1
Haryana	0.99	1.60	14	10	4
Karnataka	12.90	14.73	1	2	-1
Kerala	2.73	11.08	7	3	4
Madhya Pradesh	5.59	2.25	5	7	-2
Maharashtra	2.19	6.95	9	5	4
Orissa	4.45	1.05	6	11	-5

Punjab	0.97	0.51	13	14	-1
Rajasthan	6.97	6.29	3	6	-3
Tamil Nadu	1.96	2.22	8	8	0
Uttar Pradesh	1.73	0.84	11	12	-1
West Bengal	2.10	0.78	10	13	-3

The Government Size of PRIs have been captured in two ratios GS1 which is total revenues to GSDP from primary sector and GS2 which is defined as total expenditures to GSDP from primary sector. Karnataka was the top ranker on this count in the first phase and slipped by one position to second in the second phase. Gujarat which was at second rank moved up to the top rank in phase 2. At the bottom of the ladder we had Assam, Haryana and Punjab in the first phase and Assam, Haryana and West Bengal in the second phase. In case of GS2, the other measure of government size, Assam, Goa and Punjab were at the bottom of the ladder in the first phase and Assam, Punjab and West Bengal in the second phase. **Amongst the states that we treat separately later, while Karnataka does very well, and Kerala dramatically improves, West Bengal and Uttar Pradesh continue to languish at the bottom.**

Having obtained a fairly clear picture of the relatively 'good, bad and the ugly' performers on the various performance criteria, in Table 9 below we tabulate the shares that the allocations made to these states by the 11th and 12th FCs.

Table 9

State-wise Allocations to PRIs in the 11th and 12th Finance Commission

	11th Finance Commission		**12th Finance Commission**		**Changed Rank**	**Relatively Changed Position**
	Shares	Ranks	Shares	Ranks		
Andhra Pradesh	152.04	2	317.4	4	2	*Gainer*
Assam	46.68	12	105.2	12	0	*Unaffected*
Goa	1.85	15	3.6	15	0	*Unaffected*
Gujarat	69.61	9	186.2	8	-1	*Loser*
Haryana	29.42	14	77.6	13	-1	*Loser*
Karnataka	78.82	8	177.6	9	1	*Gainer*
Kerala	65.92	11	197	7	-4	*Loser*
Madhya Pradesh	143.09	3	332.6	3	0	*Unaffected*
Maharashtra	131.35	4	396.6	2	-2	*Loser*
Orissa	69.11	10	160.6	11	1	*Gainer*
Punjab	30.92	13	64.8	14	1	*Gainer*
Rajasthan	98.18	6	246	6	0	*Unaffected*
Tamil Nadu	93.22	7	174	10	3	*Gainer*
Uttar Pradesh	263.83	1	585.6	1	0	*Unaffected*
West Bengal	115.55	5	254.2	5	0	*Unaffected*

The change in the ranks on between these two FC awards have been tabulated in Table D1. We find that Andhra, Karnataka, Punjab, Rajasthan and Tamil Nadu have been gainers from the 12th FC allocations vis-à-vis their relative positions in the 11th FC allocation. Assam, Goa, Madhya Pradesh, Rajasthan, U.P. and West Bengal have been unaffected in their relative rankings. Gujarat, Haryana, Kerala and Maharashtra have been losers.

Tables 10 and 11 below put together the change in ranks between the two phases on the various performance criteria and juxtapose it with whether the particular state has been a net loser or gainer from the Finance Commission allocation. The small exercise that we are attempting has the data that was available to the 12th FC and juxtaposing it with the shares that emerged for the various states based on the criteria that the 12th FC used. Obviously, the negative sign implies slippage and positive sign indicates improvement, the Table 11 is compiled using information culled from Tables 9 and 10.

Table 10: Change in Ranks on Various Key Criteria (93/94 to 97/98 Phase and 98/99 to 02-03 phase)

	RD1	RD2	DR	DDR	GS1	GS2	FC
Andhra Pradesh	-4	-4	-6	-3	1	0	2
Assam	0	0	4	-4	0	0	0
Goa	-3	-3	-2	-13	3	3	0
Gujarat	-3	-3	0	2	1	1	-1
Haryana	-1	-1	-3	1	4	4	-1
Karnataka	11	11	5	9	1	4	1
Kerala	5	5	4	13	-3	-2	-4
Madhya Pradesh	10	10	-1	10	5	4	0
Maharashtra	-4	-4	3	-2	-5	-5	-2
Orissa	-4	-4	1	-12	-1	-1	1
Punjab	-4	-4	-2	2	-2	-3	1
Rajasthan	-5	-5	-3	1	1	0	0
Tamil Nadu	-3	-3	-2	0	-1	-1	3
Uttar Pradesh	-1	-1	2	-1	-3	-3	0
West Bengal	-4	-4	-6	-3	1	0	0

Table 11: Improvement/Deterioration in Relative Ranks on Various Key Criteria vis-à-vis relative awards of FCs (93/94 to 97/98 Phase and 98/99 to 02-03 phase)

	RD1	RD2	DR	DDR	GS1	GS2	FC
Andhra Pradesh	-	-	-	-	+	Status Quo	*Gainer*
Assam	Status Quo	Status Quo	+	-	Status Quo	Status Quo	*Unaffected*
Goa	-	-	-	-	+	+	*Unaffected*
Gujarat	-	-	Status Quo	+	+	+	*Loser*
Haryana	-	-	-	+	+	+	*Loser*
Karnataka	+	+	+	+	+	+	*Gainer*
Kerala	+	+	+	+	-	Deterioration	*Loser*
Madhya Pradesh	+	+	-	+	+	+	*Unaffected*
Maharashtra	-	-	+	-	-	-	*Loser*
Orissa	-	-	+	-	-	-	*Gainer*
Punjab	-	-	-	+	-	-	*Gainer*
Rajasthan	-	-	-	+	+	Status Quo	*Unaffected*
Tamil Nadu	-	-	-	Status Quo	-	-	*Gainer*
Uttar Pradesh	-	-	+	-	-	-	*Unaffected*

West Bengal	-	-	-	-	+	Status Quo	*Unaffected*
Note: "+" indicates Improvement and "- " a deterioration							

We find that Andhra, was a net gainer in its relative position from the 12th FC award but it scored poorly on our performance indicators of RD1, RD2, DR and DDR. It maintained status quo in case of GS2 and only improved its position in case of GS2. GS2 is the share of total revenues to GSDP. Clearly total revenues increased on account of grants and not due to any effort of the state to improve its own revenues. At the other extreme we find Kerala which has improved in four of the criteria but has been a net loser from the 12th FC award thus having a small government size (GS1 and GS2). Some others like Gujarat have lost out although they fared well in case of DR and DDR. Others like West Bengal have been lucky to have fared poorly on all criteria and have their relative rank as being unaffected. There are however, states like Karnataka, which have also been duly rewarded for good performance. The case of Tamil Nadu is unique as it is noteworthy.

To obtain a synoptic picture from the rankings on the various criteria we computed a 'Grand Rank' by aggregating all the ranks, thereby making the (somewhat simplistic) assumption of according equal weight to each of our criteria. These Grand Ranks are separately obtained for the two different phases and following our previous pattern a change in the rank of each state is obtained. Whilst explicitly admitting to their rather crude nature, we tabulate and present the Grand Ranks below:

TABLE 12: GRAND RANK

	Phase I	**Phase II**	**Change in Rank**
Andhra Pradesh	1	5	-4
Assam	15	14	1
Goa	4	9	-5
Gujarat	2	4	-2
Haryana	8	7	1
Karnataka	9	6	3
Kerala	13	1	12
Madhya Pradesh	6	2	4
Maharashtra	14	3	11
Orissa	12	15	-3
Punjab	3	10	-7
Rajasthan	5	8	-3
Tamil Nadu	7	11	-4
Uttar Pradesh	11	13	-2
West Bengal	10	12	-2

These Grand Ranks show that the states which have shown an improvement are Assam, Haryana, Karnataka, Kerala, Madhya Pradesh and Maharashtra with Kerala topping the list of the improved states being closely followed by Maharashtra. Whereas Tamil Nadu which is a gainer has further slipped, West Bengal has slipped further to languish in the lower echelon. **The broad conclusion that seems to emerge from the small exercise that we have carried out and which is reported in the above table is that the shares allocated to the various states by the 12th FC from the funds set aside for PRIs does not seem to be in consonance with the incremental performance of these states as per the fiscal decentralization criteria that we have used. Further there is a disjunction between the criteria used by the two FCs. If one goes into the political economy aspects (especially partisan politics dealing with who is in power at center and states) it is clear that there is no pattern here. As an aside, this confirms the commonly held view about CFCs being non-partisan.**

It has often been argued that any formula based transfer will favor some states and be unfair to others and that FC awards are unbiased to the extent that they are based on objective criteria. It is by no means our intent to charge the 12th FC transfers with alleged bias. The limited purpose of our exercise is to question and suggest a re-look at the criteria and the weights that were set out by the 12th FC for *inter se* distribution of the funds set aside for PRIs so as to reward states for any efforts made by the states to empower the rural local bodies. *Clearly the criteria of 'Revenue Effort' alone (with a weight of 20%) in the formula for inter se distribution of the 12th FC funds wasn't adequate to capture the performance of the states on the decentralization front.* Let us now turn to the buoyancy of revenues.

IV.2 Buoyancy of Own Revenues: Tax and Non-Tax

We have attempted to examine the buoyancies of Own revenues (both tax and non-tax separately) by estimating a double log regression. We have estimated these buoyancies for all fifteen states put together using panel data estimation procedure (for 15 states and 10 years) and independently for each state too. The time period examined spans the entire ten year period 1993-94 to 2002-03 and also the two sub-periods (or phases) that we have identified previously i.e. Phase I (1993-94 to 1997-98) and Phase II (1998-99 to 2002-03). A familiar qualification though, data availability constraint does not allow us to have results for more recent periods and the same makes us run regression for 5 year period (on which the purist econometrician will undoubtedly frown).

Own Revenue

		1993-94 to 2002-03	**Phase I 1993-94 to 1997-98**	**Phase II 1998-99 to 2002-03**
ALL STATES		**1.267196** (15.25)**	**0.6391416** (7.44)**	**0.44999** (4.24)**
Andhra P	1	0.73508** (7.45)	1.196086** (5.31)	1.182311** (5.19)
Assam	2	1.492585** (6.79)	0.2140646** (5.99)	0.2791475** (3.57)
Goa	3	1.981422** (8.80)	1.870591** (3.33)	0.2094202 (1.17)
Gujarat	4	1.043569** (2.12)	0.3077749** (2.80)	-0.1745756 (-0.79)
Haryana	5	1.113253**	0.4994647	2.186307**

		(6.37)	(1.38)	(4.89)
Karnataka	6	1.80265** (8.82)	0.9358337** (4.23)	0.5586754 (0.41)
Kerala	7	2.62997** (6.22)	1.434528** (9.93)	2.191336** (2.96)
M.P.	8	1.985225** (7.27)	1.148482** (5.53)	0.4016734 (1.71)
Maharashtra	9	1.655859** (6.34)	1.181235** (3.51)	0.6853715** (4.84)
Orissa	10	0.0835079 (0.35)	-0.0824613 (-0.59)	-2.617688 (-1.72)
Punjab	11	1.067484** (5.83)	0.633766** (2.85)	0.6510756 (0.62)
Rajasthan	12	0.5785745** (5.88)	0.4574664** (7.19)	-0.3125716 (-0.58)
Tamil Nadu	13	1.785468** (4.82)	0.7994175** (1.96)	-0.7505517 (-1.41)
U.P	14	0.7246503** (7.00)	0.369725** (1.85)	1.512994 (6.39)
West Bengal	15	1.064597** (7.97)	0.4734317** (3.20)	0.8232063** (2.52)

The aggregate buoyancy for fifteen states shows that the buoyancy of own revenue exceeds unity for the ten year period. However, when we look at the two sub-period or phases that we have identified we find the buoyancies to be 0.64 in the first phase and this seems to have reduced in the second phase to 0.45. This deterioration shows up when we look at the buoyancy for each state in the second phase and find that a larger number of states have in fact shown a deterioration on the own revenue buoyancy and slipped to below unity in the second phase.

In Phase I we have Assam, Gujarat, Haryana, Karnataka, Orissa, Punjab, Rajasthan, Tamil Nadu, U.P., West Bengal which have registered buoyancies to slip below unity. In Phase II Haryana, Kerala and U.P. have shown an improvement in their buoyancy. The states of Goa, M.P. and Maharashtra are three states which did have above unity buoyancy in Phase I but have allowed the buoyancies to slip below unity in Phase II. Keeping in mind the fact that the exercise is with remarkably low degrees of freedom, we would still believe that there is a lesson to be taken from the low levels as well as slippages that call for improvement.

OWN Tax Revenue

		1993-94 to 2002-03	**Phase I 1993-94 to 1997-98**	**Phase II 1998-99 to 2002-03**
ALL STATES		**1.073911** (6.09)**	**0.4755945** (2.09)**	**0.4050497** 2.69**

Andhra P	1	0.5019847** (3.33)	1.357827** (4.33)	0.8744077** (11.46)
Assam	2	1.491592** (6.79)	0.2160153** (5.99)	0.2752341** (3.53)
Goa	3	1.962195** (9.62)	1.758811** (4.19)	0.2492363 (1.29)
Gujarat	4	1.33778** (2.22)	0.4311497** (4.22)	-0.1399206 (-0.65)
Haryana	5	3.419634** (2.57)	2.577655 (0.57)	1.485132 (1.15)
Karnataka	6	2.080216** (7.62)	0.8621261** (3.49)	1.090178* (1.93)
Kerala	7	1.57762** (8.34)	1.353753** (10.24)	0.5586754 (0.41)
M.P.	8	2.929982** (6.01)	1.084343** (6.38)	0.2254321 (0.99)
Maharashtra	9	1.597946** (6.99)	1.00482** (4.17)	0.8173886** (3.82)
Orissa	10	-4.184669** (-3.26)	0.1612873 (1.35)	-4.229432 (-1.61)
Punjab	11	0.8104655** (3.90)	0.1575214** (3.29)	-0.3981042 (-0.43)
Rajasthan	12	N.A.	N.A.	-1.043483 (-0.68)
Tamil Nadu	13	1.195051** (4.03)	0.8043336* (1.91)	-0.4010672 (-0.31)
U.P	14	0.4144689** (2.14)	-0.4458811 (-1.37)	0.6788071 (1.35)
West Baengal	15	0.6305308** (5.85)	0.6208169** (5.50)	2.734242** (4.29)

As in the case of aggregate Own revenues we find that the aggregate buoyancy for fifteen states shows that the buoyancy of own tax revenue exceeds unity for the ten year period. However, when we look at the two sub-period or phases that we have identified we find the buoyancies to be 0.47 in the first phase and this seems to have reduced in the second phase to 0.40. This deterioration shows up when we look at the buoyancy for each state in the second phase and find that a large number of states have in fact shown a deterioration on the own tax buoyancy and slipped to below unity in the second phase.

- For the entire ten year period the states with buoyancy less than unity are Andhra, Punjab, U.P, West Bengal
- For Phase I the states with buoyancy less than unity are: Gujarat Karnataka, Orissa, Punjab, Tamil Nadu, U.P., W.Bengal
- For Phase II the states with buoyancy less than unity are: Andhra, Assam, Goa, Gujarat, Kerala, M.P., Maharashtra, Orissa, Punjab, Tamil Nadu, U.P.

Own Non-Tax Revenue

		1993-94 to 2002-03	Phase I 1993-94 to 1997-98	Phase II 1998-99 to 2002-03
ALL 15 STATES		**1.251414 (6.75)**	**0.5843232** (2.61)**	**0.7466416** (3.99)**
Andhra P	1	0.9839377** (13.36)	0.9820895** (5.50)	1.468322** (3.85)
Assam	2	1.613386** (6.87)	N.A.	0.9933402** (8.09)
Goa	3	2.061388** (6.57)	2.240364** (2.24)	0.1001316 (0.44)
Gujarat	4	-1.196288 (-1.08)	-0.8915077 (-0.38)	-0.4200003 (-1.34)
Haryana	5	.9937276** (5.90)	0.4065265 (1.27)	2.28174** (6.12)
Karnataka	6	1.374174** (5.70)	1.374174 (5.70)	1.090178* (1.93)
Kerala	7	5.742551** (4.55)	2.126076** (7.25)	3.86421** (4.38)
M.P.	8	0.0598802 (0.14)	1.186296** (5.13)	2.678401** (4.64)
Maharashtra	9	1.797532** (4.99)	1.645262** (2.74)	0.3936437** (2.44)
Orissa	10	1.513628 (2.24)	-0.4848206** (-2.61)	-2.542524 (-1.73)
Punjab	11	1.070313** (5.76)	0.640963** (2.84)	0.6653989 (0.62)
Rajasthan	12	N.A.	N.A.	-0.2207967 (-0.53)
Tamil Nadu	13	6.16029** (4.06)	0.6740085** (9.85)	-2.051053 (-1.14)
U.P	14	0.8077107** (8.69)	0.369725* (1.85)	1.709635** (6.85)
West Bengal	15	1.267462** (6.26)	0.3814193** (2.23)	0.1244985 (0.29)

For the aggregate of fifteen states we find that there has been some improvement in buoyancy of Non-Tax revenues in Phase II vis-à-vis Phase I. However, there are nine states in phases II which show buoyancy less than unity while there were eight in Phase I with less than unity buoyancy. The states which have shown a deterioration are Goa, Karnataka (although buoyancy is greater than unity in both phases), Maharashtra, Orissa, Tamil Nadu and West Bengal. **Expectedly we find that the tax buoyancies are less**

than the non-tax revenues. The case of taxes is easily explained in familiar terms (low base and regulatory constraints) although we may not agree with the position. But non-tax revenues are under researched and could be hiked by rationalization of various charges. Over all, ***we believe that whilst the arena for operations (of both tax and non-tax sources) can and need to be expanded, even with the given situation there is scope for better exploitation of the potential that exists.***

IV.3 End Notes on the All India Situation

The diversity in attainment, and flux in performance is quite clear from the foregoing analysis and some of the implications in terms of increasing local autonomy are obvious and do not bear repetition. What it also does is to call into serious question the general (consensual) feeling that the revenues as well as the fiscal base of all the PRIs is uniformly poor leading to the corollary that not much can be done about the increasing transfer dependency and the inevitable inertia towards attempting anything new, in short encouraging laziness, apathy and cynicism. We wish to strongly suggest two pronged approach in this context. First we wish to argue that the picture in fact is quite encouraging (see Rajaraman 2000) and that much can be done by way of own revenue increases. The obligatory tax handles have to be seriously implemented along with the floor rates prescribed in a mandatory manner. The water irrigation rates in Maharashtra with the in-built graded increase, or the road toll tax in Madhya Pradesh (Bhopal-Dewas) are examples. This has to contend with the problems due to 'nearness to taxpayer' and have to be worked around. The issues of agricultural levies that are crop specific will (not a very popular subject) as suggested by Indira Rajaraman amongst others will have to be faced (even though agriculture is a state subject). Proper design of incentives for such effort is necessary (with implication for design of transfers) and will help expand the fiscal base of the PRIs so that the trade-off between efficiency and equity is carefully worked out. The UP example of potential revenues (later in the piece) should be an eye opener. Apart from granting greater taxation powers to the PRIs, in any case, newer revenue handles will have to be innovatively unearthed, this is especially important because the GST regime might take away some of the existing ones (see Govind Rao, 2008). It is essential that non-revenue sources have to be seriously rationalized and properly tapped. This is huge under researched area that demands our attention. Many times the argument is advanced that the requirements are so huge that clearly such efforts will not help solve the problem. This is true, however what is not recognized is that such efforts help create a far healthier balance sheet for the PRIs which then are in a position to present a rating and a borrowing-risk that is viable if not attractive to the Financial Institutions that can then be approached for underwriting or taking exposure, which takes us to the second prong of our suggestion. Some of the states are devolving large amounts of the state plans to the PRIs. Already the cooperatives and scheduled commercial banks and NABARD should be looking at bankable viable projects. This needs to be done as a symbiotic effort on all the stake holders (governments at various levels as well as NGOs). The idea can be extended to creation of virtual entities formed by considering different PRIs. The entire set of PRIs will have to be classified into different classes according to economic criteria and strengths and then schemes can be worked out for 'cross-overs' that will allow even the weaker PRIs to access credit. Such a scheme has been proposed by us (see Pethe and Lalvani, 2006) in the case of Urban Local Bodies. Indeed, we would suggest the coming together of some PRIs with their urban counter parts too. There is something to be said for a ‘regional’ approach in these matters (see Pethe and Lalvani, 2007), for example consider the case of MMR which is being looked at for Mumbai Transformation Project. **This implies rather than looking at urban and rural in exclusive terms, we should be looking at the entire space as one integrated continuum dotted with institutions that are local bodies**. The experience in terms of water aggregation models is well documented (especially in World Bank literature) and some lessons are to be taken from the TNUDF experience. We recognize that this kind of experiment is not possible in a uniform and all pervasive fashion, but our argument is that we should not shy from non-homothetic strategic initiatives for this reason and where ever possible, try it with full vigor.

V. Core: The Maharashtra Story

Apart from the fact that Maharashtra has emerged as one of the fastest improving states by our ranking scheme (covering only the fiscal devolution), the other reason for including this section is that given the proximity of the authors to the ‘mantralya’ it was felt that some more data will be available for Maharashtra than has been at the all India level. It was felt that giving this as a prototype would also allow us to set up some formats which, should the data be available for all the Indian states, could be replicated. Finally, in its pronouncements Maharashtra government never fails to show off its pedigree in that it had PRIs well entrenched much before (about three decades prior) the passage of the 73rd CAA. Let us look at the fiscal performance of the PRIs in Maharashtra and then comment on some of the lacunae in processes.

V.1 Fiscal Performance of PRIs in Maharashtra

The inter-state analysis of the fiscal performance of PRIs indicated that the state of Maharashtra has performed not unreasonably (especially if one sees the improvement) on the decentralization indicators and yet been a loser from the 12th Finance Commission award. Since we had access to some detailed data for Maharashtra and since regional variations within Maharashtra has been the subject of much discussion in recent past, we undertook a small exercise to take a closer look to see if we could zero in on specific regions which were lagging behind. The three tier PRIs in Maharashtra comprises of Zilla Parishad at the district level, Panchayat Samiti at the intermediate level and Gram/Village Panchayat. Of the three, it is the lowest tier that is of most significant and needs to be empowered to reach out to the large rural society. It is the expenditures and receipts and the composition of this tier of Gram Panchayats that forms the focal point of this section of our study. Whilst the details of data (albeit for only one or two additional years) were available at a level of disaggregation, we thought it prudent (given our mandate) to restrict ourselves to division level analysis.

The State of Maharashtra has been divided into six administrative divisions viz., Konkan, Nashik, Pune, Aurangabad, Amravati and Nagpur. The per capita District Domestic Product from Primary sector and rural population of the various divisions are tabulated below to give a clear idea about the size of these various divisions.

District Domestic Product from Primary Sector and Population (PER CAPITA)

(Rs.)

	2000-	**2001-2002**	**2002-2003**	**2003-2004**	**2004-2005**	**RURAL**

	2001					POPULATION (2001 census)
KONKAN DIV.	6074.31	6799.19	7717.20	9213.68	8839.10	6,193,544
NASHIK DIV.	6516.25	7583.42	7872.48	9341.40	10120.26	11,294,179
PUNE DIV.	9034.48	9702.18	8793.23	10265.72	11555.21	12,489,965
AURANGABAD DIV.	5929.91	6039.15	6796.48	6650.64	6543.53	11,795,366
AMRAVATI DIV.	6643.29	7754.25	7689.07	7439.11	6212.51	7,312,251
NAGPUR DIV.	8913.90	10286.23	10717.91	11615.84	10037.55	6,692,342
MAHARASHTRA	7211.40	7990.90	8151.23	8988.69	9020.73	**55,777,647**
Std dev	*1411.33*	*1651.70*	*1359.28*	*1817.50*	*2126.55*	*2855888*
mean	*7185.36*	*8027.40*	*8264.39*	*9087.73*	*8884.69*	*9296275*
C.V.	*0.20*	*0.21*	*0.16*	*0.20*	*0.24*	*0.31*

Per Capita District Domestic Product from Primary Sector (DDP) has risen from Rs. 7211 to Rs. 9020 in the five years under consideration. Pune division registered the highest per capita income in 2000/01. It was surpassed by Nagpur Division in 2001/02 which remained the top ranker for three years. It was only in 2004/05 that Pune division once again overtook it. The Coefficient of Variation shows that the divergence between the divisions has widened.

The contribution of each of the divisions to the primary sector would also serve to indicate the prominence of each of these divisions in the rural economy of Maharashtra.

Share of Divisions in District Domestic Product from Primary Sector

(%)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
KONKAN DIV.	9.35	9.45	10.51	11.38	10.88	*10.37*
NASHIK DIV.	18.30	19.22	19.56	21.04	22.72	*20.28*
PUNE DIV.	28.05	27.19	24.16	25.57	28.68	*26.72*
AURANGABAD DIV.	17.39	15.98	17.63	15.65	15.34	*16.34*
AMRAVATI DIV.	12.08	12.72	12.37	10.85	9.03	*11.33*
NAGPUR DIV.	14.83	15.44	15.78	15.51	13.35	*14.96*

Pune division has consistently been the leader during the period 2000/01 to 2004/05 with average contribution to primary sector DDP of 27%, followed by Nashik at 20%. The smallest contribution has always been that of Amravati division.

The size of the Village or Gram Panchayat government is approximated by total revenue as a proportion of DDP from primary sector. The size of the Gram Panchayat division-wise has been tabulated below:

Measure of Govt. Size for Village Panchayat
(Total Revenue/DDP from Primary Sector)

(%)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
KONKAN DIV.	2.508	2.527	2.290	2.293	2.652	*2.454*
NASHIK DIV.	1.569	1.505	1.565	1.459	1.461	*1.512*
PUNE DIV.	1.415	1.466	2.034	1.855	1.817	*1.717*
AURANGABAD DIV.	1.239	1.402	1.535	2.307	2.288	*1.754*
AMRAVATI DIV.	1.120	1.277	1.471	1.863	2.681	*1.683*
NAGPUR DIV.	1.077	1.143	1.193	1.292	1.569	*1.255*
MAHARASHTRA	1.429	1.489	1.679	1.806	1.944	*1.669*

The share of Total revenue of Gram Panchayats in Maharashtra is a mere 1.6% of the primary sector DDP of Maharashtra. Division-wise we find that the largest share is that of Konkan Division at 2.4% and the smallest is that of Nagpur of 1.25%. **There appears to be no relation between the share of contribution and the size of the government.**

The total revenue of Gram Panchayats in Maharashtra comes from (1) Taxes which include tax on buildings and land, conservancy and public health tax, lighting tax, water charges (2) other income and (3) Grants from Zilla Parishad/Panchayat Samiti/Government grants and also via the D.R.D.A. (through which the Centrally Sponsored schemes are routed). Table below provides the shares of these various sources of revenue.

Contribution of the Various Sources of Revenue for Gram Panchayats

(%)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Average
1. Total Tax Revenue/Total Revenue	33.77	38.23	40.05	37.36	37.25	*37.48*
shares of various taxes in Total Tax Revenue						
(a) Tax.on Buildings and Land	48.51	52.94	54.93	56.06	55.56	*54.15*
(b) Conservancy and Public Health Tax	5.85	5.62	4.92	4.73	5.96	*5.38*
(c) Lighting Tax	8.33	6.50	6.68	7.20	6.58	*6.96*
(d) Water Charges	37.30	34.94	33.48	32.02	31.89	*33.51*
2. Other Income	18.92	16.04	16.20	14.90	14.57	*15.86*
3. Grants/ Total Revenue	47.31	45.73	43.75	47.73	48.18	*46.66*

Total Tax revenues (own taxes) have on an average contributed 37% to the total revenues available to Panchayats, Grants 47% and other incomes 16%. Among the taxes, the tax on buildings and land have been the major contributor (54% of total tax revenues) followed by water charges (33.5% of the tax revenue). Conservancy and public health tax and lighting tax have contributed 5% and 7% respectively. Fiscal Autonomy of these panchayats can be gauged by computing the extent to which total expenditures have been funded out of their own tax revenues. Table below tabulates these ratios over the five year period.

Fiscal Autonomy
(Tax Revenue/Total Expenditures)

Year	Ratio
2000-2001	38.19
2001-2002	40.46
2002-2003	42.79
2003-2004	40.17
2004-2005	39.28
Average	**40.19**

On an average 40% of total expenditures of gram panchayats have come from own taxes. What is important to note from the above table is that there hasn't been any significant improvement in these shares over the five year period. In fact, there has been a steady decline over the last three years from 42.7% in 2002-03 to 39.2% in 2004-05. A division-wise break up of the Fiscal Autonomy ratios is tabulated below:

Fiscal Autonomy Divison-wise

	2000-2001	**2001-2002**	**2002-2003**	**2003-2004**	**2004-2005**	**Average**
KONKAN DIV.	44.95	46.42	49.51	49.25	47.69	*47.75*
NASHIK DIV.	39.58	43.60	52.16	46.05	42.86	*44.98*
PUNE DIV.	41.50	40.10	40.93	37.69	40.99	*40.12*
AURANGABAD DIV.	30.69	34.86	65.56	28.31	28.80	*36.36*
AMRAVATI DIV.	30.92	35.38	35.12	38.54	32.64	*34.70*
NAGPUR DIV.	34.59	39.75	42.26	45.67	41.36	*41.27*
MAHARASHTRA	38.20	40.47	42.80	40.18	39.29	*40.24*

Konkan Divison is seen to be the most autonomous and has also shown an improvement over the years. Pune and Aurangabad are the two divisions where deterioration is to be noticed on this count.

Shares of various components in Total Expenditure

	2000-2001	**2001-2002**	**2002-2003**	**2003-2004**	**2004-2005**	**Average**
Admn.& Estab.	14.22	14.51	15.34	14.67	14.67	*14.71*

Water Supply	13.08	14.56	13.45	13.41	12.65	*13.37*
Conservancy & Public Health	8.88	7.44	8.48	8.84	9.57	*8.72*
Public Work	26.81	30.00	28.41	30.70	30.33	*29.49*
Other*	37.01	33.49	34.32	32.38	32.78	*33.71*

We find that the largest share has been allocated to Public works which is a desirable trend and also the fact that there has been some increase in this share over the five year period. Conservancy and Public health have small average share of merely 8.7% in the total expenditures. Some small increase is noticeable here but clearly there is need for increasing this component of expenditures. Expenditure on water supply has remained more or less constant as has the share on expenditure and administration. By and large **the picture that emerges is of *status quo*. No sharp hike in the share of expenditure on public health or public works is noticeable despite the hype created about focusing on improving the situation in rural areas.**

A division-wise classification of the various taxes and expenditure categories as has been presented below would be useful to gauge the regional variation in the revenues collected and the expenditures incurred.

Contribution of Divisions in Average Collection of Taxes and Expenditure Categories (1998/99 to 2002/03)

(%)

	KONKAN DIV.	**NASHIK DIV.**	**PUNE DIV.**	**AURANG-ABAD DIV.**	**AMRAVA-TI DIV.**	**NAGPUR DIV.**
Tax.on Buildings and Land	25.33	14.59	29.84	10.81	6.90	12.48
Conservancy and Public Health Tax	10.81	26.95	29.83	11.51	15.66	5.24
Lighting Tax	8.45	22.61	24.57	19.57	13.66	12.00
Water Charges	7.34	25.94	23.81	18.70	12.60	11.62
Total Tax Revenue	**17.30**	**20.05**	**27.45**	**15.80**	**9.69**	**11.50**
Z.P./Panchayat Samiti/Govt.Grants	15.56	11.72	34.69	18.54	9.85	8.32
D.R.D.A.Grants	10.25	15.84	22.50	22.20	15.17	14.06
Other# Revenues	17.56	26.31	26.17	18.08	9.06	8.45
Total Revenue	**15.09**	**18.13**	**27.30**	**17.17**	**11.14**	**11.18**
Admn.& Estab.	13.97	20.30	31.28	14.13	9.48	10.84
Water Supply	10.25	24.23	29.33	18.38	9.85	13.99
Conservancy & Public Health	12.29	22.46	31.42	12.30	9.35	12.15
Public Work	16.58	12.52	30.12	19.62	10.07	10.90
Other Exp.	15.41	17.99	21.91	17.90	14.07	12.71
Total Expenditure	**14.58**	**17.94**	**27.54**	**17.48**	**11.24**	**11.22**

The major contributor in the total tax revenue of Gram Panchayats has been Pune Division. It has contributed on an average 27% of the total tax revenue with the next highest contributor being Nashik which has contributed 18%. The smallest contributions have come from Amravati and Nagpur Divisions. Naturally therefore on the expenditure side too the highest spending division both on administration and on public works has been Pune division.

The surprising statistic that caught our attention in the above table is that Pune Division received the highest share of DRDA and ZP/Panchayat Samiti/Government Grants. Our tables on district income had shown Pune Division to have the highest per capita income thus these grants and also the fact that Pune Division was seen to be a relatively poor performer on the Fiscal Autonomy front and in fact has shown deterioration on this count over the five years. Whereas, Pune Division has, been the largest contributor to the total tax collections and to that extent needs to be rewarded, this cannot justify the largest share of grants being directed to the Pune Division. ***It is in perhaps violation of both equity and efficiency (especially former) concerns but more importantly, brings to light the ad-hocism in intergovernmental transfers from state governments in the absence of a well thought out formulae along the lines of the CFCs.***

The regional variations that we have highlighted for the state of Maharashtra is merely illustrative but has brought home the point that we once again re-assert: there is an urgent need to tap all possible resources to bring together a comparable data at a disaggregative level for PRIs across the states of India.

V.2 Some Further Issues in Maharashtra

Maharashtra has done some things right (especially as captured by our ranking scheme). For example it has delegated the financial powers of considerable magnitude to the PRIs and transferred several schemes to them. Indeed twenty years back (long before the talk of budget window) it started the practice of compilation of a large matrix on financial year basis depicting the fund flows from the line departments to the PRIs. The state has also instituted ‘incentive awards’ under the Yeswantrao Chavan Panchayat Abhiyan. However, there are some problems with regard to other than purely fiscal matters that warrant urgent attention and improvement. Despite the continued assertion of the State about ‘knowing it and having done it all’ even prior to the 73rd CAA, the performance is not what it should be, and we are not just talking about financial matter dealt with in the earlier subsection. Indeed because of the lack of clean slate, we find a overhang of older processes and practices untouched by the new impulse. This overhang is clearly reflected in the mindsets that are in need of urgent change. It might be prudent to undo and redo some of the things, for example in case of activity mapping, instead of than saying that ‘we don’t need to do it afresh since we have already done it’ (albeit in some other context). Just to cite one instance, the capacity utilization of a progressive state like Maharashtra should be clearly better than 23% and 16% in the last two years in case of the flagship PMGSY! The fact that only 9% utilization is reported in case of 12th FC funds does not encourage one. Neither does the consequence of the prospect of the impending vicious cycle of no utilization certificate and so no further grants. The common knowledge that there are around 50000 assets created at the local level that have fallen into disuse is not particularly heartening. Finally the convenient and easy interpretation of expenditure control regimen has meant that large number of vacant staff positions are reported (compression of revenue expenditure?!). No wonder that the work will suffer

Simply put, the SFCs, sans tokenism, have been given a go by. Let us see the details. The first SFC was set up in April 1994 and its report was submitted in November 1996. The State Govt. accepted the report with modifications in July 1997 and ATR was submitted to the State Legislature in April 1997. The Second SFC was set up in May 1999 and its report was submitted in October 2002. The State Govt. accepted the report in October 2002 and ATR was submitted to State Legislature during the Budget Session i.e. August 2003. The Third Commission has been set up and report is awaited (this despite the common knowledge that the said report has been submitted some time ago). This is the trite reporting through government documents and review reports. We quote some of the phrases that require no further comment in that they show a peculiar mind set (some times euphemistically termed as bureaucratic cleverness) and/ or utter lack of coordination between government departments but a clear and blatant disregard for any right to information. About SFC, **details of recommendations of the Second SFC and ATR of the State Government are not available**, this after passage of so much time after submission. Or in the context of transferred scheme, **'the quantum is *not given*'** and in context delegation of financial powers to PRIs, **'details of financial resources or tax collection have *not been given*'** or indeed although the by the 'good practice' of financial and revenue accounts being submitted to auditor general, it is claimed that this is done every year, **'however *no details available*'.** This in the documents and review reports of the Government of Maharashtra! Need we say more?! The point is not to be critical of the persons, indeed, our experience is that they are all quite cooperative and want to help. This is merely to point out the systemic fault lines.

The Comptroller and Auditor General's report, as always, makes interesting reading (though that the details are regularly submitted by GoM and the CAG report is on the Web which is great!). The diversion of funds and sometimes the FC grants being passed off as 'state grants' is pointed out. Lack of reconciliation of accounts multiplicity of bank accounts by DRDA (even in some cases for the same scheme!) non-reportage of physical targets, non utilization of funds non distribution of even the statutory grants makes for familiar reading. DRDA continues to be powerful and much happens outside the gamut of PRIs is sad, to say the least.

VI. Core: Some More on Some States:

Whilst detailed analysis of panchayati raj finances is not possible along the lines of Maharashtra for lack of consistent, updated data, in this section we use the inputs from the states to MoPR, apart from excellent studies (Bardhan and Mookherjee (2007), World Bank (2004), Oomen (2004)) which research some of the other states so as to unearth some of the things attempted and document some good practices, especially those which according to us has a bearing on the finances of PRIs. The states that we will be looking at are, Kerala, Karnataka, West Bengal, and Uttar Pradesh apart from Maharashtra which has been commented upon in an earlier section. This sub-sample is largely defined by the dictum of 'searching for the pin under the light' but does happen to have amongst it the most populous state as well as those which are supposedly best performing state w.r.t. PRIs or have a pedigree and experience in PRIs that pre-dates the passage of 73rd CAA.

VI.1 Nature of Transfer

There was a decision some time ago, that the states will provide a window for PRIs within the respective state budgets. Implementation on this front has been rather poor. The response – in a majority of cases – unfortunately has been one that displays apathy, lethargy and even worse deliberate procrastination. Sometimes there have been reasons advanced for this in a clever bureaucratic fashion that would be amusing except that they are seriously disconcerting. Most of the states continue the practice of transferring the funds through the line departments through routine project /scheme line items to the Rural Development Departments or the parallel bodies such as DRDA s or to the commissioner of Panchayati Raj. Then they are sent onwards to the BDOs or Magistrates or in some cases to the ZPs for onward transmission to the lower tiers. The whole point about the decision for a budget window was two fold, one, to reduce the transaction number and nodes so that the cost of transaction would be reduced and efficiency ensured; two it would be easy to find out the actual transfers to PRIs through the budget in an easy fashion enabling researchers and policy makers to evaluate and monitor the transfer efficiency. State level bureaucracy raises serious questions about and show scant respect to the capacity of lower level functionaries (both officials and elected). There should be a serious introspection at the State level whether laxity in providing a budget window is an act of omission due to capacity or an act of commission due to intent. To be sure some of the states have started moving towards the goal, by creating newer item-heads that reflect the funds to be transferred to PRIs, this could then be presumably be clubbed to form a budget window operated directly by the finance department. A caveat needs to be entered here, although a good move, this will be really useful if there is uniformity in practices across states. In a very recent meeting of empowered chief ministers meeting (GoI, 2008) it has been reported that such budget windows have been created in seven States. It is to be hoped that this will be emulated by others quickly. Of course, it has to be recognized that this window is only a necessary condition for the underlying goal. If the grants are not released regularly or in a predictable manner – as reported by some states – then not much is achieved. It has been reported that the many of the above lacunae are present not only where the funds emanating from the state government are concerned but indeed much the same is true for even grants that come under Centrally Sponsored Schemes (CSS). It is not unknown – within government and bureaucracy – that even agency nodes assume power through (wrongly) perceived sense of control which leads to such behavior. Even where the CSS funds are transferred quickly, they do not go directly to PRIs but to (parallel) DRDAs, who then assume considerable control over the disbursal. These are clearly important governance issues and needs to be tackled effectively. Some of the states have started – due to prodding by higher level governments and authorities – to take measures to track the fund movement and have decided to keep the limit for the time from receipt to transfer to two weeks. To be sure, there are some good practices, although not as well distributed across states. For example at least in case of CSS funds there are states that quite directly transfer them to PRI bank accounts (all tiers) automatically through the Fund Transfer Software developed by NIC, which incidently is a result of a report by a Task Force appointed by the MoPR. This is a triumph of IT enablement. There are some good practices where separate fungible funds are created within the Treasury (much like the consolidated fund) and the panchayats are allowed to open bank accounts through which the transfers are made. That these funds are largely non-lapsable (across financial years) is enabling provision at least till the PRIs gain greater capabilities. Also the practice of determining both the time and magnitude of such transfers is an empowering and efficient practice that will enable the PRIs to feel secure and informed in making their expenditure plans. There is a welcome and a palpable reduction in the transfer time from two months to two days! Thus, the picture with regard to transfer of funds although frustrating, is not all bleak. The 'best practices' as put in place by some states need to be documented and widely circulated, with a view to emulation by all the states.

VI.2 Functioning of SFCs

This is a huge area which has been widely researched (see e.g., World Bank/ Geeta Sethi (2004), India Infrastructure Report (2003) as also Shubham Chaudhary (2007)). Indeed in this same report it is treated elsewhere. However, the public domain knowledge about these reports continues to be woefully sparse. Our concern in this very brief section is with the financial aspects of SFC reports. The State Finance Commissions have been required by the Constitutional mandate as a part of the 73rd CAA. However they have not been very successful for a few reasons. First amongst them is that whilst they have mostly been set up rather mechanically, not much thought seems to have gone into the exercise in the composition of the commission. The timing of setting these up have also not been synchronized with the Central Finance Commissions (which work like clockwork) thus depriving Central Finance Commissions of the crucial inputs as envisaged. It can be seen that some of the SFCs have taken their job seriously and come up with useful recommendations, however by and large most of these have been rejected and when they have been accepted (in principle) the States have dragged their feet in the matter of actual implementation of the awards. There are only few states that have rigorously kept to a time table of setting up SFCs. Fewer still have actually gone through the process of acceptance and ATR by the respective governments and legislatures. There is varied experience where the newly formed states are only now initiating the process of setting up their first SFC Chattisgarh and Jharkhand). Again, the quality of the reports by the SFC in different states shows heterogeneity. Some of the SFCs have recommended revenue (tax and non-tax) (Andhra) and sometimes only the tax revenue (Assam), shares to be devolved as well as the sharing between the urban and rural local bodies. The inter se distribution between the different tiers is also recommended based on criteria that vary form simple and straight forward to complicated and detailed/ formula based formats that reflect social concerns (always where there is data to implement such recommendations). Some have gone to the extent of working out first level demarcation in terms of advanced ordinary and backward PRIs along with weights. Recommendations about assignments of taxes such as advertisement, profession and property tax have routinely been made. In addition some SFCs have suggested newer handles for revenue mobilization or improvement in the efficiency of the existing ones. Some have recommended (and implemented) special grants (for weak PRIs as well as incentive grants for well performing ones.

For all this mostly the end result is non acceptance of recommendations by the SFCs. It is difficult to justify the efforts taken by the SFCs resulting in ad-hoc, non-formulaic and paltry grants being handed down to the PRIs. It is surprising to note that even after several years have passed after the submission of reports, states in their response to the query use phrases like 'accepted in principle', or 'under active consideration’, or ‘yet to be ascertained’ (Assam, Tripura and Goa) or indeed the more drastic, ‘details are not available’ (Maharashtra). In most cases even the conditional acceptance means non-acceptance of recommendations that have financial implications. Mercifully there are exceptions wherein not only the recommendations have been accepted but actual implementation and quick releases of funds have happened (Gujarat, Haryana, Sikkim and Punjab). In a rare case, rather than awaiting report of the next FC, a state (Haryana) has gone ahead and released advanced grants. Several new schemes have been initiated with strides in implementation backed by financial releases is another best practice that is reported. This shows the proactive stance of the State and should be considered a good practice especially in contrast to the generally prevalent attitude of finding excuses or shifting blame. In some cases like J&K, one finds parallel (also Pani-panchayats in Orrissa) bodies like the Halqua Panchayats that are to be devolved funds. While they may be doing good work whether such parallel bodies are to be allowed is a moot point. Quantum of untied and programmatic schematic funds that reaches each Panchayat is as high as 20 to 30% in some cases (Himachal and Kerala). The practice of supporting weak panchayats and creating incentives is laudable (e;g;, Haryana, Punjab, Maharashtra). The enabling practice in some states of allowing outsourcing especially in technical matters and mandate to raise resources through borrowings is a good practice that deserves emulation. So is the transfer of rights for extraction of minerals whilst keeping the revenues (Madhya Pradesh).

As in the case of the manner of transfer of funds, the ‘best practices’ need to be documented and other states encouraged (by arm twisting?!) to emulate. As things stand, by and large, the SFCs as an instrument of devolution of funds seem to have been a singular failure. Some good practices with regards to process and quantum of flow of funds are undoubtedly in evidence, but these are largely in states that have already been converted to the dharma of decentralization. The role of SFCs in converting the significant majority of other states s non-existent. Given the sharp contrast with which this presents to the practice of practically mandatory acceptance of Central Finance Commission a good deal of soul searching is called for. **Perhaps the centripetal bias of our federation needs to be invoked to take concrete steps (including constitutional amendment) to force the issue of empowering properly constituted State Finance Commissions**, who would in their turn become agents of real change.

VI.3 Specific States

The four states specifically commented upon in this sub-section fall in the category of states that have accepted and by and large released funds as per the recommendations of the SFCs. The first three states are also those with considerable pedigree in matters of PRIs and had early starts. Despite this and the apparent intent on the part of the states to push for decentralization (sometimes beyond the requirement as laid down by either the 73^{rd} CAA or indeed the SFC recommendations) in terms of fiscal-financial decentralization (as captured by us) and ranking emanating there from, they have not done well. This clearly underlines **the pre-eminence of the proposition that an important pre-requisite here is the Finances of the State government itself**. The fourth one is the most populous state which is a member of the BIMARU states and is showing some initiative to deal with the issues of decentralization.

VI.3.1 Kerala

Inspired by and as a part of the peoples movement, and as recommended by the first administrative reforms committee, the state passed the Kerala Panchayat Bill (1958) and District Council Bill (1959) to get a head start over others. Kerala has devolved most to rural governments and redesigned its planning process by revision of the Panchayat Raj Act in 1999. The state – post 73rd CAA – took a big bang approach to decentralization. The Kerala model is also renowned for the achievements such as high literacy, especially amongst women with a positive impact on local government. Kerala established fewer but larger GPs whereas Karnataka (also considered in this section) went precisely the in opposite direction.

Kerala is the only State in which three State Finance Commissions have submitted their reports with practically every recommendation being adopted. Each SFC has been a path breaker. The First SFC succeeded in integrating seventeen small specific purpose grants into a broader general purpose grants and also in streamlining the determination and transfer of the share of State taxes, making it fully formula-based and totally non-discretionary. The Second SFC moved away from sharing specific State taxes and suggested global sharing of State's Own Tax Revenue, fixing 3.5% as General Purpose Grant and 5.5% as Maintenance Grant. The Third SFC has moved on to a regime of fixed grants. It fixed the base year's grant equivalent to the recommendations of the Second SFC and suggested 10% annual increases for the five year period. While this has cost the Local Governments the possible gains due to buoyancy in tax revenue, it has improved predictability as the SFC has indicated Local Government-wise share for each year over the five year period under the three streams of General Purpose Fund, Maintenance Fund and Development Fund.

The most revolutionary aspect of Kerala’s decentralization is the provision of substantial untied funds for local prioritization and local resource allocation to identified priority areas. It is significant to note that this was not recommended by any SFC but was a policy decision taken by the State Government at the beginning of the IXth FYP.

While the State has been able to go beyond what is strictly essential (as per SFC reports) and has been able to consolidate CSS in some cases leading to welcome increase in the untied grants recently, there has unfortunately a drop in the statutory grants which is wholly unwelcome. Also, it has been noticed that restriction of *actual* flows to PRIs get aggravated every time there is a glitch in the state finances. Thus even when credited to their Treasury accounts, the panchayats are not able to use the funds because the fiancé department will not release them. The performance audit shows up some lacunae which have to mostly do with the outmoded accounting and record keeping. However all this should not detract from the many positive features in Kerela case such as transparency especially in beneficiary selection, RTI, social audit which need to be further encouraged, strengthened and emulated by other states.

VI.3.2 Karnataka

Establishment of ‘local fund’ in 1862 was the beginning by the state with regard to decentralization. In 1954, Local Boards Enquiry Committee recommended setting up opf the three tier structure in the state. In 1956 a new act was adopted to standardize the varying structure of governments in the state. In many ways, Karnataka was ahead of the decentralization reforms initiated in 1992 and may have influenced the thinking on empowerment of rural governments. It has also maintained its proactive stance on this matter over time (see, Geeta Sethi, 2004).

The First State Finance Commission (recommending for the period from 1996-97 to 2000-01) recommended the transfer of 36 percent of Non-loan Gross Own revenue Receipts of the State for transfer to PRIs and ULBs. This was to be shared between PRIs and ULBs in the ratio of 85% and 15% respectively. It was recommended that the horizontal sharing between ZPs, TPs and Gram Panchayats should be 40 %, 35% and 25% respectively. Regarding horizontal sharing, it suggested the criteria and weigthage on which the share may be distributed. The Second Finance Commission recommended the transfer of 40 percent out of NLGORR of the State to PRIs (32% and ULBs 8%). While recommending an increase in the overall proportion of the NLGORR that should go to PRIs and ULBs put together from 36 percent to 40 percent. The IInd SFC gave ULBs a higher increase in the share of NLGORR as compared to PRIs, while making the inter-se share between them. It also changed the weightage marginally and added one criterion (SC/ST) and removed one (Road length). With respect to the 32 percent that it recommended should go to the PRIs, the SFC made the 'pecking order' recommendations regarding the further devolutions within the PRI to set up the order of charge.

With respect to the devolution of statutory grants to Grama Panchayats, the FC recommended a pro-rata increase of the allocations at the rate of Rs. 25,000/- per year for each Grama Panchayat. **The State has accepted the report of the First and Second State Finance Commissions. The State has always taken the stand that its devolution of funds to Panchayats has exceeded the proportion recommended by the Finance Commissions.** This is indeed a fact, if the devolution of non-plan funds to Panchayats is reckoned. However, in practice, the horizontal formula for inter-se sharing of funds between Panchayats has not been followed leading to distortion between the transfer of funds and functions and hence expenditure. Due to lack of information, the per-capita transfers too are not fairly devolved across districts, even in case of targeted schemes. The grant size increase seems to have no relation to revenue effort which is ad-hoc and would lead to disincentives. This is one of among some of the lacunae in SFC report implementation (see Geeta Sethi, 2004).

Some of the other problem areas are worth noting here, despite having well formulated transfer rules (time and magnitude) there continues to be bunching at the end of the financial year and worse still when the state finances are perceived to be in trouble, PRIs are one of the early casualties. The other problem deals with the transferred staff who refuse to be accountable to PRI administration and owe allegiance and loyalty to the line departments. The dominance of line departments lead to the problem of proliferation of schemes and overlapping function which is a governance issue. In recent past the plan expenditure of the district sector is showing declining trend which is worrisome, however there are refreshing signs in the most recent times as may be seen from the table below (as reported by the State government.

Details of plan allocations made to Panchayats(In Rs. Crs.)

Year	**Zilla Panchayat**	**Taluk Panchayat**	**Gram Panchayat**	**Total**
2004-05	798	482	316	1596
percentage	(50.0)	(30.2)	(19.8)	(100.0)

2005-06	1208	765	1588	3561
percentage	(33.9)	(21.5)	(44.6)	(100.0)
2006-07	1253	976	2131	4360
percentage	(28.7)	(22.4)	(48.9)	(100.0)
2007-08	2428	7790	1977	5784
Percentage	(47)	(15)	(38)	(100.0)
No. of plan Schemes	212	72	30	314
Source: Government of Karnataka				

The cost of collection seems to be huge as compared to the collection in a sample of villages studied, and although as a proportion of property tax it is showing decrease, as a percent of total revenues it continues to rise, with the implication that property tax is very important as it should be and other sources are not being tapped. This is clearly unacceptable.

VI.3.4 West Bengal

One of the states that has implemented decentralization more thoroughly and from long time is West Bengal. In the earliest avatar, it took the form of Union Boards through an Act in 1885 followed by the 1919 Bengal Village Self Government Act. Of course, in terms of financial parameters, it is not – as seen in the earlier section – a top state, the reasons in this case are more to do with political praxis than economics. The three tier system with elections and at the cost of bureaucracy exists for at least three decades and predates the 73rd CAA. The local government allowed for mobilization of popular participation though biased in a party political manner against the entrenched power centers. The greater emphasis on political decentralization has meant the financial autonomy was rather limited. The extent of financial devolution was limited and own revenues accounted for less than 4% of local government budgets, with employment grants accounting for 60% and tied grants amounting to 25% there was very little expenditure autonomy possible. Apart from responsiveness and accountability, the evidence of **seat reservation for women in the chair positions shows a statistically significant shift to road maintenance and drinking water supply projects**. The absence of formula based allocations indicated that greater poverty, illiteracy and proportion of lower caste residents were negatively correlated to the resource flow into the village (see, Bardhan and Mookherjee, 2007). This limitation seems to be reducing in the recent past and more and more delegation of responsibilities with financial tones are being delegated. Thus there appears to be a movement away from deconcentration to delegation, with resultant lessening of the sway of the line departments. Greater participatory roel for the ultimate agents also has resulted in better targeting of beneficiaries under different schemes, although the partisan political bias is also evident.

The first State Finance Commission was constituted under Notification No. 1023-FB dated May 30, 1994. The Commission submitted its report on November 27, 1995 which covered the period 1996-2001 **West Bengal is one of the few States where all the recommendations of the State Finance Commission have been accepted.** Explanatory Memorandum as to the action taken on the recommendations was laid to the State Assembly on July 22, 1996.

The second SFC was constituted under Notification No. 1770-FB dated July 14, 2000. The Commission submitted its report on February 6, 2002 which covered the period 2001-06. Explanatory Memorandum as to the action taken on the recommendations was laid to the State Assembly on July 15, 2005 and the **State Government accepted most of the recommendations**.

The Third State Finance Commission has been constituted under Notification No. 4000-FB dated February 22, 2006. The Commission will submit its report to the State Govt. by March, 2008. While there are not many innovative features to be seen in the transfer design or implementation in this case as compared to Kerala and Karnataka the table given below regarding the flows to the PRIs, as reported by the State give scope for much hope.

Transfer of Fund to the PANCHAYATS During 10th Five Year plan period

(Rs. in crore)

Year	Salary Grants by the State	Other Grants by the State including 2nd SFC Grant	State share of CSS	ACA & CFC Grants	Total fund released through State Budget	GOI share of CSS released direct to the PRIs	Grand Total
2002-03	147.84	94.38	144.59	77.32	464.13	367.08	831.21
2003-04	183.93	161.75	142.03	72.07	559.78	403.07	962.85
2004-05	193.39	200.61	161.62	124.97	680.59	530.79	1,211.38
2005-06	192.43	425.23	273.77	174.79	1,066.22	948.99	2,015.21
2006-07	210.79	317.71	302.90	402.55	1233.95	789.86	2023.81

The share in percent terms as reflected in the above table seem to be reasonable and stable.

Flow of Fund to Different Tiers of PRIs From State budget of PRDD

(Rs. in crore)

Tier	2002-03	2003-04	2004-05	2005-06	2006-07
Zilla Parishads	183.30	228.48	240.61	345.09	290.02
Panchayat Samitis	65.52	44.50	79.01	154.82	156.33
Gram Panchayats	215.31	286.80	360.97	566.31	787.60
TOTAL	464.13	559.78	680.59	1066.22	1233.95

Here too the share of funds in percent terms to the three tiers to be stabilizing in the right direction. However the magnitudes seem to be on the lower side and hence inadequate. The main purpose of the left front to create a strong political base appears to be served.

VI.3.5 Uttar Pradesh

Uttar Pradesh represents the most populous state (16% of the Country) in this massive experiment in democracy. Although it is on of the BIMARU states, the reason for including a brief section here is to acknowledge that some initiatives have been taken and in particular an analytical study with a rigorous methodology for sample selection was conducted to gauge awareness and estimated potential revenue sources that could be tapped.

The relevant findings (we will concentrate only on financial matters) are recounted in what follows. Awareness of Gram Sabha members about development programs is interesting. The most popular or the development programmes implemented in large number of villages about which more than 90% of Gram Sabha members were aware were:

I. Indira Awas Yojna
II. Old Age Pension
III. Widow Pension
IV. Assistance to Handicapped and Orphans
V. Rural Drinking Water Supply Schemes

Whereas the sick programs according to the responses of the Gram Sabha members, about which on an average only 40% members were aware of:

I. SGSY
II. REGP
III. PMGSY
IV. Annapurna
V. NFBS
VI. NMBS
VII. Rural Sanitation (better than above)
VIII. Loan to SC/ST/OBC and Minorities

The following resources were perceived from which the Panchayats could raise their own revenue to carry out their functions:

1. Grazing land
2. Agriculture land
3. Orchard
4. Tree Plantation
5. Ponds
6. River Beds
7. River Ghats
8. Shops
9. Community Hall
10. Weekly Markets
11. Mela Place

Out of the perceived 4 resources of income (Grazing land, Agricultural land, Orchards and Ponds), only grazing land (tragedy of commons) and Ponds were available in all the Gram Panchayats in sufficient acreage and quantity. In other cases, either because the sources were only in few places or because of perceived implementation difficulties (danda raj), or not knowing how, the resources were not exploited. **But the Gram Panchayts were not raising any appreciable income from even the first four sources**. Clearly in other sources, revenue extraction was not happening and a skewed gain by some by way of rent-seeking behavior.

On the basis of sample data the overall value of all available internal resources in U.P. comes to Rs. 445,647,967,148 (Rs 44,564 Crores) and the total value of encroached resources was Rs.18,216 crore. But there was not much hue and cry by the Panchayat and Gram Sabha members against encroachment. As far as who will help in development there continued to be heavy dependence on government, particularly central government, it was quite encouraging to find that as high as 32% felt that the Panchayat itself should generate funds for its development. There was a felt need to have greater power in determination of policy. For greater details see HARAYALI (2007)

While the states covered above (especially the first three) represent best practises in the conceptualization (design of transfers) as well as passage of *de jure* enablement through acts, and accomplishment of political devolution, when it comes to – the very crucial – matter of actual finances, the implementation over time leaves much scope for improvement. Of course even more so is the reliable data and records (including the recording mechanisms in place).

VII. Epilogue: Pons Asinorum

Thus as is amply clear, there are quite a few stumbling blocks in the way of successful implementation of the decentralization program. Clearly, passage of Acts in the parliament cannot do the job. The federal political structure that we have in India some how seems to lead to attempt at dragging their feet on part of the states. In this section we briefly comment on only three of such reasons (each of which is multi-dimensional) and rectification will take some doing. To be sure, much has been happening in fits and starts on all the counts that we discus here. To repeat, the issues here are not of conceptual clarity but rather that of taking the next essential step of big ticket/push action.

VII.1 Data

We don't need to refer to Voltaire's dictum of 'text before criticism to recognize the paramount importance of availability of up-to-date data on finances of the PRIs, if an evaluation exercise is to be meaningfully conducted. This alone will ensure an exercise that will lead to rigorous conclusions as against opinions. Without it the exercise is in danger of becoming either of significance from the view point of contemporary history alone or one which is merely speculative in nature. Many researchers including us (see Pethe and Lalvani) have commented – almost ad-nauseum – on the data problems in similar arenas. The problem is even more acute when one considers the PRIs. There cannot be greater situational tragedy than to have to evaluate finances where consistent available data at the state levels is available with am almost five years lag. And even then it is not tier level, forget about the level of expenditure-functional classification. It is true that such data must be available somewhere in bits and pieces (and occasional evidence is seen) but non-coordination between different departments and levels precludes the possibility of any automatic compilation in a user-friendly manner. Also one more problem has to do with the fact that there is no uniformity (across states) in the heads under which the data, when available, are recorded. None of this in this day and age (especially of the much touted IT enablement) should be acceptable in India. A concerted effort is thus called for. Of course the work will have to begin at the source level where data is first recorded. A uniform format for compilation will have to be instituted across states and PRIs. Of course this takes us further back into the entire issue of accounting procedures and capacities. There is something to be said for borrowing the 'good practice' of creating manual and corresponding training modules, by the UDD of the GoI. However, this must not be allowed to hold us back. The protocols must be put in place for data to be compiled and sent upward to the MoPR through a determined path (of not too many agencies) at a regular interval. Perhaps the Bureaus/ Directorates of Economics and Statistics at the State government level could be directed to act as the responsible nodal agency. MoPr should do the enabling spade work and immediately set the process in motion for data compilation on all the financial data and indeed of making it available on the public domain. There is the quality aspect as well as data on good practices that are equally important. But we believe that those things will have to wait (not for too long, one hopes!) for the moment.

VII.2 Processes and Actual Devolution of Resources

When all is said and done, the main issue has to do with the actual devolution of finances. With the best of allocations at Central as well at the State levels and even with giving additional revenue handles to the PRIs, not to mention the scrupulously worked out schemas for devolution by the SFCs, 'the best laid plans will come to a naught', if these are not backed by actual finances in the hands of the ultimate agents. There is a marked divergence between the allocation/outlays and 'actuals'. This is true whether one is talking about the funds under CSS or the SFC transfers (accepted by the state government). This is also reflected in proliferation of schemes (at the State as well as the Central level) and on each count the absorption is far from satisfactory. There has been a consequent call for consolidation of schemes that is being put into practice, but much remains to be done. The ultimate brunt is borne by the vulnerable poor in the rural areas. This has not only adverse implications for the agents but also for the principal in terms of credibility. There are some best practices here being demonstrated by few states that need to be learnt from. The absorptive capacity and involved processes at all levels of governmental functioning entail horrendous waste of time. The irony is that each level of government seems to demean the level of capacity at the lower level with little introspection on the self. The use of this euphemism as an excuse for lack or delay in transfer has gone on too long and would be as funny *a la* 'Yes Minister', except that it is really hurting. Enough number of reform commissions have mulled over the issues and listed out the simplification, efficiency and transparency mechanisms and the time to act on these is yesterday!

Finally, we would strongly urge two things, one, the things to be done here should not be done sequentially (there would be an argument and urge to do so in the name of convenience and propriety) for, it would only lead to waste of further time. And two, no pilot studies need to undertaken but the whole scheme should be undertaken in a mission mode, here and now in a big bang, here and now, fashion!

VIII. Quo Vadis: The Way Forward

We need to take in all the lessons and experiences accumulated thus far and reflect but more importantly start afresh in a big ticket mode. As we have argued earlier, the politico-economic conjuncture is opportune. Thus, apart from the data (financial and of best practices as well as protocols with IT enabled ERP solutions) and accounting as well as process matters – which are of a primary importance – that we have already commented upon, we would suggest a few things.

In a revivalist Keynesian fashion we would like to suggest that we need to put financial resources (as also functionaries) with the PRIs. This alone will lend substance to all the design of transfers and decentralization as well as governance efforts in general. As Thomas Issacs, the architect of People's Campaign in Kerala, has noted (see, Shubham Chaudhary, 2007) the preconditions for decentralization are to be created in the decentralization process itself. As we have noted, let us not allow the 'lack of capacity' argument to detract us even as we continue our efforts on that front. This alone will allow PRIs the facility of learning by doing. After all when ever in history was infrastructure provided in anticipation?! It always happens when a threshold demand is signaled. The fear of *decentralization of corruption* notwithstanding, we would still strongly hold this view. After all the leakages are of such magnitude that (tongue firmly in cheek) we would venture to hazard that welfare will be better served with more uniformly distributed, stable term structure of corruption than a monopolized concentrated entitlement at high places. The Central Finance Commissions must be proactive and make devolutions on account of non-plan expenditure so that we move away from the ethos of ribbon cutting activity. In this context – and at a more general level – there needs to be review of the artificial plan/non-plan and even revenue/capital expenditures. The fact that Vijay Kelkar (2004) who heads the 13th FC has views along similar lines gives us reason for hope

Call the bluff that the PRIs universally have a poor fiscal base and relentlessly push – in an incentive compatible mode – for greater effort and search of additional handles. Exploit the revenue base that exists (individually and jointly by some PRIs) and use modified pooled funding approach create an access to the capital markets and more simply, loan exposure. To borrow from Wilde, if *some of us dare to look up to the stars*, it should be encouraged. Don't be afraid to be non-homothetic in approach and breaking through the rural-urban divide, treating the whole space as a continuum and forging synergies across the local bodies. Here the onus of capacity building and learning firmly lies – to a greater extent – with the financial institutions who will have to create a new risk matrix and innovate through linking of 'grain loan facility' in order to provide food security and reducing the risk profile. This will also require us to face the stiff trade off between equity and efficiency.

Finally consolidate schemes. Let go of those that are not functioning and thus cut losses. Prioritize and in the first instance concentrate on those dealing with water, education and roads. We should thus move forward decisively creating an **E**nabling **M**echanism for **P**anchayats to **O**perate **W**ater, **E**ducation and **R**oad **S**chemes: it EMPOWERS!

IX. Conclusion

The emerging agenda implied in all that we have written is of mammoth proportions and not for the faint hearted. It is to the undoubted credit of the 'toddler of a mere four years' MoPR that it has plunged into action right away and drawn up action plans in a systematic way. The credit for the fact that there has been some success shown on the front of the State governments taking action on various actions suggested (although at a slow pace) is a singular achievement of the dynamism shown by MoPR and its leadership. The PM has directly intervened to afford centrality to MoPR and its charge (in a sense) the PRIs, in every possible including the flagship programs. This was to be especially true where the CSS hit the ground and impact the local public goods. The activity mapping is done in almost all the states and seven are on record to have provided a budget window in their budgets. Consultants are in place to check the actual flow of funds. A whole list of a host of activities has been drawn up which is impressive as it is well thought out, that this is being done by the NDC subcommittee lends it credibility (see GoI, 2008). However, all these functions are possible only if adequate funding is provided. After all we don't need Bahl (1999) to tell us that finance must follow function. On this aspect unfortunately there is silence!

The issue is deeper, as has been noted (see Konrad Adenauer (1998)) the PRIs were to be vibrant institutions in the democratic set up on the country and yet the requisite recognition has not been granted in the corridors of power. The recent Central Finance Commissions have been doing their bit – especially the 12 CFC – to situate PRIs within the structure of Indian Federal Public Finance, and one hopes that the tradition is strengthened further (see Pethe, 2008) so that they can be more effective.

Thus, the Polity, Economy and Administration are entwined in a triangular set-up that resembles not a light romantic comedy but rather a rough *ménage a trios* and it is essential that they find a way through to **EMPOWER**, with adequate financial strength, for ensuring smooth attainment of the Development goals of the Indian society. This then, is how in the simple story of poor PRIs and what to do about it thickens and for all the grand designs in other related spheres and aspects, unless we are ready to put money where our mouth is, the goal of transforming India into a '*developed*' super power will suffer the fate of the Tantalus.

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APPENDIX A

Table A.1

PRI Own Revenue (Per Capita)

	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Andhra Pradesh	16.54	18.34	20.56	25.03	26.17	**21.33**	24.12	25.24	27.72	29.03	30.45	**27.31**
Assam	1.56	1.57	1.58	1.59	1.60	**1.58**	3.22	3.24	3.24	3.20	3.22	**3.23**
Goa	22.94	35.98	41.79	48.60	53.03	**40.47**	96.06	95.11	102.11	110.29	116.77	**104.07**
Gujarat	12.02	11.93	12.46	13.79	13.77	**12.80**	26.06	26.62	24.74	22.55	21.69	**24.33**
Haryana	29.03	30.97	29.26	28.65	36.10	**30.80**	42.42	42.03	49.47	50.77	51.52	**47.24**
Karnataka	0.80	0.95	1.25	1.37	1.25	**1.13**	15.15	16.59	19.18	14.99	16.81	**16.55**
Kerala	1.83	2.05	3.65	4.69	4.80	**3.40**	71.72	100.24	91.88	81.93	94.37	**88.03**
Madhya Pradesh	3.21	4.87	5.53	5.77	5.82	**5.04**	22.22	22.73	26.39	32.07	38.85	**28.45**
Maharashtra	2.09	3.27	3.73	3.85	3.89	**3.37**	44.83	52.97	60.03	68.73	83.01	**61.91**

Orissa	2.49	2.81	2.48	2.43	2.36	**2.51**	3.07	2.84	2.93	2.81	1.74	**2.68**
Punjab	26.67	30.44	33.10	31.09	34.81	**31.22**	42.15	52.70	50.33	40.40	60.59	**49.24**
Rajasthan	6.76	7.22	7.36	8.83	8.37	**7.71**	8.55	9.71	9.37	8.56	8.57	**8.95**
Tamil Nadu	6.22	6.45	8.27	7.41	8.55	**7.38**	12.92	14.56	18.10	17.80	18.44	**16.37**
Uttar Pradesh	3.24	3.36	3.17	3.31	3.86	**3.39**	3.79	4.30	4.64	4.49	4.73	**4.39**
West Bengal	2.70	2.83	2.86	2.84	3.66	**2.98**	5.36	5.40	5.81	5.80	5.33	**5.54**
Average	**9.21**	**10.87**	**11.80**	**12.62**	**13.87**	**11.67**	**28.11**	**31.62**	**33.06**	**32.90**	**37.07**	**32.55**

Table A.2

PRI Grants (Per Capita)												
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Andhra Pradesh	N.A.	N.A	N.A	N.A	N.A	N.A	452.38	496.55	651.40	707.50	752.98	612.16
Assam	N.A.	N.A	N.A	N.A	N.A	N.A	0.00	0.00	0.00	0.00	0.00	0.00
Goa	N.A.	N.A	N.A	N.A	N.A	N.A	33.43	40.05	70.35	194.30	280.77	123.78
Gujarat	N.A.	N.A	N.A	N.A	N.A	N.A	929.10	994.27	1276.30	862.66	832.50	978.97
Haryana	N.A.	N.A	N.A	N.A	N.A	N.A	31.62	100.11	71.24	121.60	101.56	85.23
Karnataka	N.A.	N.A	N.A	N.A	N.A	N.A	0.00	0.00	0.00	0.00	0.00	0.00
Kerala	N.A.	N.A	N.A	N.A	N.A	N.A	253.46	216.57	218.64	202.86	230.56	224.42
Madhya Pradesh	N.A.	N.A	N.A	N.A	N.A	N.A	0.27	0.27	0.28	0.29	0.42	0.31
Maharashtra	N.A.	N.A	N.A	N.A	N.A	N.A	491.05	954.85	646.10	726.90	828.54	729.49
Orissa	N.A.	N.A	N.A	N.A	N.A	N.A	28.57	50.28	13.56	19.77	31.62	28.76
Punjab	N.A.	N.A	N.A	N.A	N.A	N.A	5.44	19.83	19.46	12.43	18.27	15.09
Rajasthan	N.A.	N.A	N.A	N.A	N.A	N.A	238.35	271.28	241.33	248.72	239.44	247.83
Tamil Nadu	N.A.	N.A	N.A	N.A	N.A	N.A	0.00	0.00	0.00	0.00	0.00	0.00
Uttar Pradesh	N.A.	N.A	N.A	N.A	N.A	N.A	1.26	0.01	0.09	0.03	4.57	1.19
West Bengal	N.A.	N.A	N.A	N.A	N.A	N.A	25.48	46.49	103.59	71.30	24.88	54.35
Average	N.A.	N.A	N.A	N.A	N.A	N.A	**166.03**	**212.70**	**220.82**	**211.23**	**223.07**	**206.77**

Table A.3

PRI Total Revenue (Per Capita)

	93-94	94-95	95-96	96-97	97-98	Average	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Andhra Pradesh	291.65	312.08	318.75	392.56	477.04	**358.42**	503.13	587.45	708.04	767.25	816.09	**676.39**
Assam	1.77	1.78	1.80	1.81	7.18	**2.87**	3.22	3.24	3.24	3.20	3.22	**3.23**
Goa	89.66	107.93	105.53	92.41	141.52	**107.41**	134.65	140.51	179.13	308.43	411.82	**234.91**
Gujarat	443.76	529.81	590.54	806.95	761.80	**626.57**	1077.52	1165.35	1582.74	1070.12	1025.37	**1184.22**
Haryana	13.45	14.57	16.94	21.07	23.97	**18.00**	94.10	207.47	150.60	232.59	247.46	**186.44**
Karnataka	676.12	751.27	843.59	969.02	1111.03	**870.21**	989.16	1268.79	1354.37	1252.23	1216.46	**1216.20**
Kerala	49.60	61.78	89.01	219.36	381.01	**160.15**	399.67	400.39	348.64	355.20	401.12	**381.01**
Madhya Pradesh	58.27	52.18	84.55	123.91	317.31	**127.25**	84.12	84.45	94.72	126.34	106.35	**99.20**
Maharashtra	61.22	54.82	88.82	130.17	333.36	**133.68**	559.93	1029.57	727.79	823.42	942.51	**816.65**
Orissa	127.37	139.15	181.47	209.19	215.52	**174.54**	56.78	71.66	37.55	43.40	59.23	**53.73**
Punjab	100.76	111.57	117.61	91.40	87.52	**101.77**	63.55	88.29	85.38	68.36	109.53	**83.02**
Rajasthan	242.54	306.65	359.99	399.07	413.65	**344.38**	408.67	445.36	415.92	416.26	412.08	**419.66**
Tamil Nadu	118.92	85.05	87.23	107.22	105.99	**100.88**	161.30	150.98	205.70	110.75	250.99	**175.94**
Uttar Pradesh	54.59	52.81	60.84	52.94	73.15	**58.86**	32.99	40.55	48.35	48.59	46.63	**43.42**
West Bengal	84.02	94.78	105.22	97.84	91.24	**94.62**	31.75	52.11	110.45	79.45	30.21	**60.80**
Average	**160.91**	**178.42**	**203.46**	**247.66**	**302.75**	**218.64**	**306.70**	**382.41**	**403.51**	**380.37**	**405.27**	**375.65**

Table A.4

PRI Total Expenditure (Per Capita)

	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Andhra Pradesh	290.17	316.53	324.77	391.58	475.52	359.71	613.05	696.59	803.05	857.81	910.30	**776.16**
Assam	17.32	19.21	19.38	20.84	18.80	19.11	3.23	3.26	3.26	3.23	3.26	**3.25**
Goa	49.04	56.24	64.96	71.10	102.16	68.70	134.65	140.51	179.13	308.43	411.82	**234.91**
Gujarat	508.09	535.03	628.95	690.74	774.18	627.40	984.77	1066.52	1337.96	1109.33	796.21	**1058.96**
Haryana	77.23	83.70	93.37	73.73	108.97	87.40	93.54	207.47	150.60	232.59	247.47	**186.33**
Karnataka	582.56	552.35	705.76	895.70	991.32	745.54	906.79	1210.61	1298.24	1203.25	1157.91	**1155.36**
Kerala	52.42	63.36	116.65	216.12	277.37	145.18	759.77	712.14	635.93	580.20	744.93	**686.59**
Madhya Pradesh	59.36	54.04	84.09	123.38	314.03	126.98	83.85	84.18	93.89	126.05	105.93	**98.78**
Maharashtra	62.36	56.77	88.35	129.62	329.91	133.40	568.95	663.62	700.09	750.25	831.99	**702.98**

Orissa	127.37	139.15	181.47	209.19	215.52	174.54	56.78	71.66	37.55	43.40	57.50	**53.38**
Punjab	104.22	106.29	123.41	104.63	103.10	108.33	63.55	88.29	85.38	68.36	109.53	**83.02**
Rajasthan	242.40	307.82	357.92	400.82	418.32	345.46	359.77	419.40	397.68	375.84	395.04	**389.55**
Tamil Nadu	68.85	68.17	73.50	99.46	123.18	86.63	88.71	132.80	182.02	147.28	148.82	**139.93**
Uttar Pradesh	54.15	52.62	60.87	56.57	75.13	59.87	32.71	46.88	48.79	32.84	44.50	**41.14**
West Bengal	82.10	104.14	111.39	99.66	103.79	100.21	31.75	52.11	110.45	79.45	30.21	**60.80**
Average	**158.51**	**167.69**	**202.32**	**238.88**	**295.42**	**212.5**	**318.79**	**373.07**	**404.27**	**394.55**	**399.70**	**378.08**

Table A.5

GSDP from Primary Sector at Current Prices - GSDPP
(Per Capita)

	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Av**
ra Pradesh	4132.16	4771.90	5427.74	6062.66	5718.99	**5222.69**	7407.73	7549.36	8522.19	8716.83	8473.40	**81**
n	3461.17	4025.82	4270.67	4258.71	4809.39	**4165.15**	5310.02	6171.91	5865.76	6001.82	6472.70	**59**
	7126.23	8089.85	8248.87	8583.80	10666.91	**8543.13**	11337.04	11486.35	14601.70	15541.30	14345.34	**134**
at	4497.27	6483.41	5780.12	7886.52	7765.23	**6482.51**	8807.26	6800.29	6223.50	7294.21	7742.80	**73**
ana	7356.09	8383.38	8393.72	10196.65	10088.71	**8883.71**	11164.33	11666.66	12066.35	11528.67	11681.61	**116**
ntaka	4666.90	5111.01	5741.78	6502.56	6545.05	**5713.46**	7705.49	8215.03	8692.43	7408.88	7239.87	**78**
a	3652.97	4391.70	5254.77	5806.41	5762.41	**4973.65**	5985.96	6561.70	6224.45	5805.78	6395.90	**61**
ya Pradesh	1534.68	1907.75	2175.63	2360.80	2584.02	**2112.58**	2896.80	3494.72	4276.71	6631.95	5749.21	**46**
rashtra	4587.81	5086.39	5614.82	7435.76	6389.75	**5822.90**	6734.12	7561.86	12104.17	12804.75	14190.62	**106**
a	2952.50	3414.09	4334.26	3919.16	4969.57	**3917.91**	5176.39	5017.82	4677.82	5191.73	5304.55	**50**
b	9490.40	10341.04	11039.26	12745.21	13245.10	**11372.20**	14340.73	15965.77	16869.03	17504.71	16782.15	**162**
than	3424.26	4353.14	4737.08	6132.86	6321.57	**4993.78**	7058.53	6678.13	6235.35	5180.53	6142.39	**62**
Nadu	3768.65	4159.88	4033.21	4510.00	5315.41	**4357.43**	5908.00	5408.29	7540.05	6879.16	5722.21	**62**
Pradesh	2790.13	3136.45	3370.70	4021.22	4081.59	**3480.02**	4570.24	4925.88	4945.89	4852.54	5167.90	**48**
Bengal	3558.69	4201.34	4835.53	5430.29	6601.56	**4925.48**	7486.21	7607.15	7727.20	8069.64	7849.89	**77**
age	**4466.66**	**5190.48**	**5550.55**	**6390.17**	**6724.35**	**5664.44**	**7459.26**	**7674.06**	**8438.17**	**8627.50**	**8617.37**	**816**

Table A.6

GSDP from Primary Sector at Constant 1993-94 Prices - GSDPPR
(Per Capita)

	93-94	94-95	95-96	96-97	97-98	**Average**	1998-	1999-00	2000-01	2001-02	2002-03	**Aver**
hra Pradesh	4132.16	4026.46	4201.67	4417.93	3696.47	4094.94	4501.05	4413.09	4981.01	4949.56	4493.42	466
am	3461.17	3443.27	3453.11	3383.11	3514.12	3450.95	3348.99	3311.57	3179.50	3301.48	3276.89	328
	7126.23	7211.94	6985.19	6938.01	7509.06	7154.09	7367.93	6935.49	6662.93	7858.06	8122.63	738
arat	4497.27	6043.50	5316.86	6839.18	6227.16	5784.80	6478.00	4726.91	4136.29	5106.74	4482.30	498
yana	7356.09	7770.38	7311.96	8004.42	7285.09	7545.59	7437.52	7677.08	7667.46	7279.71	7130.19	743
nataka	4666.90	4593.61	4636.91	4801.35	4632.89	4666.33	5071.59	5467.06	6062.56	5185.08	4751.24	530
ala	3652.97	3950.91	3867.36	3911.37	3670.57	3810.63	3721.16	3770.08	3055.15	3086.97	3092.64	334
lhya Pradesh	3134.43	3030.39	3078.83	3206.77	3219.46	3133.98	3285.70	3428.31	2774.03	4050.63	3371.20	338
harashtra	4587.81	4468.04	4623.63	5276.12	4533.56	4697.83	4735.49	5036.59	4715.67	4874.62	4739.15	482
sa	2952.50	2935.19	3012.13	2709.20	3176.06	2957.02	3126.38	2919.03	2771.98	3110.19	2783.16	294
jab	9490.40	9560.54	9444.71	9980.66	9410.70	9577.40	9575.48	10142.27	10339.22	10408.52	9916.80	1007
asthan	3424.26	4167.94	4026.69	4743.97	4909.86	4254.54	4874.46	4255.51	3693.04	4176.52	2888.74	397
il Nadu	3768.65	4139.66	3573.80	3498.77	3749.04	3745.98	4034.57	3793.57	5127.87	4628.83	3611.27	423
r Pradesh	2790.13	2839.48	2857.91	3087.09	2901.12	2895.15	2959.91	3182.49	3088.45	3033.54	3078.77	306
t Bengal	3558.69	3787.30	3825.01	3993.33	4260.58	3884.98	4106.74	4163.64	4197.80	4481.61	4243.80	423
rage	**4573.31**	**4797.91**	**4681.05**	**4986.09**	**4846.38**	**4573.31**	**4975.0**	**4881.51**	**4830.20**	**5035.47**	**4665.48**	

APPENDIX B
STATE RANKINGS

Table B.1

PRI own Revenue/State Own Revenue (RD1)											
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Andhra Pradesh	3	1	1	1	1	**1**	5	6	5	5	6	**5**
Assam	13	12	14	14	14	**14**	13	14	14	14	14	**14**
Goa	6	4	5	4	6	**5**	8	8	9	12	10	**8**
Gujarat	4	5	4	6	5	**4**	7	7	8	7	7	**7**
Haryana	2	3	3	3	3	**3**	6	5	4	4	4	**4**
Karnataka	15	15	15	15	15	**15**	9	9	7	10	8	**9**
Kerala	12	14	12	11	11	**12**	1	1	1	1	1	**1**
Madhya Pradesh	9	7	7	7	7	**7**	2	2	2	2	2	**2**
Maharashtra	14	13	13	13	13	**13**	4	3	3	3	3	**3**

Orissa	11	10	11	12	12	**11**	15	15	15	15	15	**15**
Punjab	1	2	2	2	2	**2**	3	4	6	6	5	**6**
Rajasthan	5	6	6	5	4	**6**	10	10	10	8	9	**10**
Tamil Nadu	8	9	8	9	9	**8**	14	12	13	13	12	**13**
Uttar Pradesh	7	8	9	8	8	**9**	12	13	12	9	11	**12**
West Bengal	10	11	10	10	10	**10**	11	11	11	11	13	**11**

Table B.2

PRI own Revenue/State Own Revenue + PRI Own Revenue (RD2)											
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Average**
Andhra Pradesh	3	1	1	1	1	**1**	5	6	5	5	6	**5**
Assam	13	12	14	14	14	**14**	13	14	14	14	14	**14**
Goa	6	4	5	4	6	**5**	8	8	9	12	10	**8**
Gujarat	4	5	4	6	5	**4**	7	7	8	7	7	**7**
Haryana	2	3	3	3	3	**3**	6	5	4	4	4	**4**
Karnataka	15	15	15	15	15	**15**	9	9	7	10	8	**9**
Kerala	12	14	12	11	11	**12**	1	1	1	1	1	**1**
Madhya Pradesh	9	7	7	7	7	**7**	2	2	2	2	2	**2**
Maharashtra	14	13	13	13	13	**13**	4	3	3	3	3	**3**
Orissa	11	10	11	12	12	**11**	15	15	15	15	15	**15**
Punjab	1	2	2	2	2	**2**	3	4	6	6	5	**6**
Rajasthan	5	6	6	5	4	**6**	10	10	10	8	9	**10**
Tamil Nadu	8	9	8	9	9	**8**	14	12	13	13	12	**13**
Uttar Pradesh	7	8	9	8	8	**9**	12	13	12	9	11	**12**
West Bengal	10	11	10	10	10	**10**	11	11	11	11	13	**11**

Table B.3

Dependency Ratio (DR)											
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Average**
Andhra Pradesh	7	8	7	6	6	**6**	12	12	12	12	11	**12**
Assam	5	6	5	4	4	**5**	1	1	1	1	1	**1**
Goa	1	1	1	1	1	**1**	2	2	3	3	4	**3**
Gujarat	13	13	13	13	11	**13**	13	13	14	14	13	**13**
Haryana	2	2	2	2	3	**2**	4	5	4	5	5	**5**
Karnataka	15	15	15	15	15	**15**	15	15	15	15	15	**15**
Kerala	9	10	10	12	12	**11**	9	6	6	6	7	**6**
Madhya Pradesh	8	5	6	8	10	**8**	5	4	5	4	3	**4**
Maharashtra	10	9	9	9	13	**9**	10	10	9	9	10	**10**
Orissa	14	14	14	14	14	**14**	11	11	10	11	12	**11**
Punjab	3	3	3	3	2	**3**	3	3	2	2	2	**2**
Rajasthan	12	12	12	11	9	**12**	14	14	13	13	14	**14**
Tamil Nadu	4	4	4	5	5	**4**	7	7	7	8	8	**7**
Uttar Pradesh	6	7	8	7	7	**7**	8	9	8	7	9	**9**
West Bengal	11	11	11	10	8	**10**	6	8	11	10	6	**8**

Table B.4

Change in Dependency Ratio (DDR)												
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Average**
Andhra Pradesh	-	7	2	7	11	**5**	-	7	10	7	7	**8**
Assam	-	15	5	11	2	**6**	-	8	9	10	9	**10**
Goa	-	1	3	2	15	**2**	-	12	15	15	15	**15**
Gujarat	-	10	8	8	7	**7**	-	5	11	5	4	**5**
Haryana	-	14	15	1	14	**15**	-	15	1	14	10	**14**
Karnataka	-	9	4	9	4	**4**	-	6	7	9	6	**7**
Kerala	-	11	6	12	8	**11**	-	1	5	11	11	**2**
Madhya Pradesh	-	2	14	14	13	**14**	-	2	3	13	1	**1**
Maharashtra	-	4	12	13	12	**13**	-	3	4	4	3	**3**
Orissa	-	8	10	10	5	**10**	-	9	2	12	13	**12**
Punjab	-	3	13	3	1	**1**	-	14	12	6	14	**13**
Rajasthan	-	12	9	6	6	**8**	-	4	8	8	8	**6**

Tamil Nadu	-	5	1	15	9	**12**	-	11	13	2	5	**11**
Uttar Pradesh	-	6	11	4	10	**9**	-	10	6	1	12	**9**
West Bengal	-	13	7	5	3	**3**	-	13	14	3	2	**4**

Table B.5

Govt Size (GS1)

	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Average**
Andhra Pradesh	4	4	4	4	4	**4**	4	4	3	3	3	**3**
Assam	15	15	15	15	15	**15**	15	15	15	15	15	**15**
Goa	12	11	12	12	12	**12**	9	11	11	8	8	**9**
Gujarat	2	2	2	2	3	**2**	2	1	1	2	2	**1**
Haryana	14	14	14	14	14	**14**	11	9	10	7	9	**10**
Karnataka	1	1	1	1	1	**1**	1	2	2	1	1	**2**
Kerala	10	10	10	7	5	**7**	5	6	6	6	6	**6**
Madhya Pradesh	6	6	6	6	2	**5**	7	8	8	9	10	**8**
Maharashtra	11	13	11	10	7	**9**	3	3	5	5	5	**4**
Orissa	5	5	5	5	8	**6**	10	10	13	13	11	**11**
Punjab	13	12	13	13	13	**13**	13	14	14	14	13	**14**
Rajasthan	3	3	3	3	6	**3**	6	5	4	4	4	**5**
Tamil Nadu	7	8	8	8	9	**8**	8	7	7	10	7	**7**
Uttar Pradesh	9	9	9	11	10	**11**	12	12	12	11	12	**12**
West Bengal	8	7	7	9	11	**10**	14	13	9	12	14	**13**

Table B.6

Govt Size (GS2)											
	93-94	94-95	95-96	96-97	97-98	**Average**	1998-99	1999-00	2000-01	2001-02	2002-03	**Average**
Andhra Pradesh	4	4	4	4	4	**4**	4	4	5	4	3	**4**
Assam	15	15	15	15	15	**15**	15	15	15	15	15	**15**
Goa	14	14	14	12	13	**14**	11	11	9	9	7	**9**
Gujarat	2	2	2	2	3	**2**	1	1	3	2	4	**1**
Haryana	13	13	13	14	12	**12**	9	10	11	8	9	**10**
Karnataka	1	1	1	1	1	**1**	2	2	2	1	1	**2**
Kerala	10	10	8	7	7	**7**	3	3	1	3	2	**3**
Madhya Pradesh	6	6	6	6	2	**5**	8	8	7	10	10	**7**
Maharashtra	11	11	11	10	6	**8**	5	6	4	6	6	**5**
Orissa	5	5	5	5	8	**6**	10	13	10	12	11	**11**
Punjab	12	12	12	13	14	**13**	14	14	13	14	13	**14**
Rajasthan	3	3	3	3	5	**3**	6	5	6	5	5	**6**
Tamil Nadu	9	9	9	8	9	**10**	7	7	8	7	8	**8**
Uttar Pradesh	8	8	10	11	10	**11**	12	12	12	13	12	**12**
West Bengal	7	7	7	9	11	**9**	13	9	14	11	14	**13**